



Performance Report

FISCAL YEAR
2006



SBA's 2006 National Small Business Person of the Year!



President George W. Bush and National Small Business Person of the Year Eric A. Hoover, President and CEO, Excalibur Machine Company, Inc., Conneaut Lake, Penn.

Doing Well By Doing Good

Eric Hoover, President and CEO of Excalibur Machine Company, Inc. and the SBA's 2006 National Small Business Person of the Year, was born and raised in a small town in northwest Pennsylvania. At an early age, Eric was diagnosed with rheumatoid arthritis. Although doctors predicted he would spend the rest of his life in a wheelchair, Eric proved them wrong and fulfilled his dream of making a difference in the lives of those in need.

In 1988, after completing a four-year journeyman's apprenticeship in the machining trade, Eric founded Excalibur. Due to his unique business philosophy, his talent, hard work and experience, Excalibur has seen sales growth of more than 350%. And he has been able to move from one facility of 6,000 square feet to three facilities with over 67,000 square feet. This year, Excalibur will grow its staff of 80 by 30 to 40 more employees.

Eric has also made time to start a sales organization called Camelot Consolidated; a trucking firm, Blade Transport; and a construction company by the name of Lancelot Construction.

Eric is a man who crystallizes the ideals and spirit of the SBA. Why? — because Eric's work doesn't stop when he leaves the office. He makes a difference wherever he goes, volunteering his time and talents to help others. In 2005 Eric started Excalibur Charities to raise funds for the Red Cross and local charities. He planned and underwrote an event that brought the community together to raise much needed funds. The experience was so rewarding, Eric promises to make it an annual event.

Strategic Goal 1

STRATEGIC GOAL 1

Improve the economic environment for small businesses

America's small businesses — some 25.8 million strong — are a major sector of the Nation's economy. They account for half of the country's gross domestic product, create two out of every three new net jobs, and produce 13 to 14 times more patents per employee than do large firms. Further, the patents are twice as likely as those from large firms to be among the one percent most cited. Despite their importance to the economy, the cost of government regulation and excessive paperwork heavily burdens small businesses.

This Strategic Goal is intended to ensure that all enterprising Americans have the maximum opportunity to succeed. The Agency strives to meet it by focusing on the following Long-Term Objectives:

LTO 1.1 Minimize the regulatory burden on small businesses.

LTO 1.2 Simplify the interaction between small businesses and the Federal Government through the use of the Internet and information technology.

LTO 1.3 Increase the effectiveness of federal agencies to provide opportunities for small businesses.

The following sections describe how successful the individual programs were that contributed to the Agency achieving these objectives, and the challenges they faced.

REGULATORY ASSISTANCE

The SBA, through its Office of Advocacy, works to reduce the burdens that federal policies impose on small firms and provides vital small business research that informs policymakers. Simply stated, the mission of the SBA's Office of Advocacy is to encourage policies that support the development and growth of American small business by:

- Minimizing the regulatory burden on small entities through government-wide training and early intervention in the federal regulatory process and through promotion of regulatory flexibility at the state level; and,
- Producing research to inform policymakers and academics of the impact of regulatory burdens on small entities, and of the importance of small business in the Nation's economy.

Simultaneously, the SBA ensures equity and fairness in the federal regulatory enforcement process through the Office of the National Ombudsman by:

- Raising awareness of the regulatory assistance available;
- Providing the means to register comments about unfair regulatory enforcement actions by federal agencies;
- Acting as a neutral liaison between the parties; and
- Helping to move the relationship between government and industry to one of mutual collaboration and benefit.

Office of Advocacy

Table 4.

Performance Statement Program Level Assistance Strategic Goal 1. Improve the economic environment for small business								
LTO	Advocacy Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
1.1	Increase Regulatory Cost Savings to Small Businesses	Intermediate Outcome	\$6.35	\$17.05	\$6.60	\$5.60	\$7.25	29% B
1.1	Research Publications	Output	30	21	34	25	28	12% B
1.1	Number of Regulatory Agencies with In-House RFA Expertise	Output	N/A	25	19	22	1	-95% R
1.1	Number of States Formally Considering Legislative or Executive Action	Intermediate Outcome	N/A	17	19	10	11	10% B
1.1	Research Publications and Data Reports in Curricula	Output	N/A	27	18	16	16	0% G

Advocacy Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$8,680	\$9,360	\$9,439	\$8,585	\$9,364

Advocacy Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per \$1 Million Savings	\$1,367	\$549	\$1,430	\$1,533	\$1,292

The Office of Advocacy, while part of the SBA, is an independent voice for small business within the Federal Government. It represents the interests of all small entities including small businesses, small organizations and small governmental jurisdictions. Appointed by the President and confirmed by the U.S. Senate, the Chief Counsel for Advocacy directs the office. The office advances the views, concerns, and interests of small business before Congress, the White House, federal agencies, federal courts, and state policy makers. Economic research, policy analyses, and small business outreach help identify issues of concern. Regional Advocates and staff in Washington, DC, support the office's efforts. The Office of Advocacy's economic research, regulatory interventions, and model state legislation initiative reduce regulatory barriers that impede small business growth and development.

Strategic Goal 1

All of Advocacy's goals are designed to benefit small entities, directly and indirectly. For example, Advocacy's regulatory interventions result in delayed small business compliance dates, small business exemptions, and performance-based rather than design standards for compliance. The money small entities save as a result of these flexibilities is money that may now be spent to maintain or grow the business. Another way Advocacy helps small business is through research which promotes a greater understanding of the importance of small business to the overall economy and the impact of government policies and programs on small businesses. For example, Advocacy's research shows that small businesses pay 45% more to comply with federal regulations than their larger counterparts. This discrepancy needs to be a factor when policymakers consider promulgating new regulations.

By the end of FY 2006, SBA's Office of Advocacy estimated approximately \$7.25 billion in first year cost savings and \$117 million in annual recurring cost savings due to its activities. This figure exceeds Advocacy's goal by more than 30% largely because a single outlier rule amounted to \$5.5 billion. This cost savings represents money that small businesses will not have to spend complying with regulations, but instead will be available to purchase new equipment, provide health care, or simply remain competitive. In future fiscal years it is possible that these cost savings will be reduced as a result of training and early intervention in the regulatory process. This means that some proposed regulations may be less costly when first proposed because agencies have internalized processes for reducing regulatory cost. Or, it may mean that Advocacy achieved cost savings at the confidential interagency stage of the regulatory process. To account for these two scenarios, Advocacy is developing a better method of measuring its overall effectiveness.

The SBA had a goal of ensuring that 22 federal agencies gain in-house regulatory flexibility expertise through training during FY 2006. By the end of FY 2006, only one agency had received the training, representing a less than five percent goal achievement for the year. The cause of this shortfall was the shift of resources away from classroom training into finalizing the online training module. Now that the online training is up and running, the SBA will reestablish the classroom training until all agencies have been trained at least once in the classroom. The SBA anticipates that the 66 agencies initially selected will receive training by FY 2007.

The SBA projected that a total of 16 of the top 100 colleges with major entrepreneurship programs would insert Advocacy's data into their curricula. The rationale behind this goal was to generate interest in entrepreneurship research among academics and to broaden awareness of existing research. In FY 2006, 16 colleges inserted Advocacy's data into their curricula. In addition, 26 other colleges that were not identified as having top entrepreneurship programs also included Advocacy's data in their curricula.

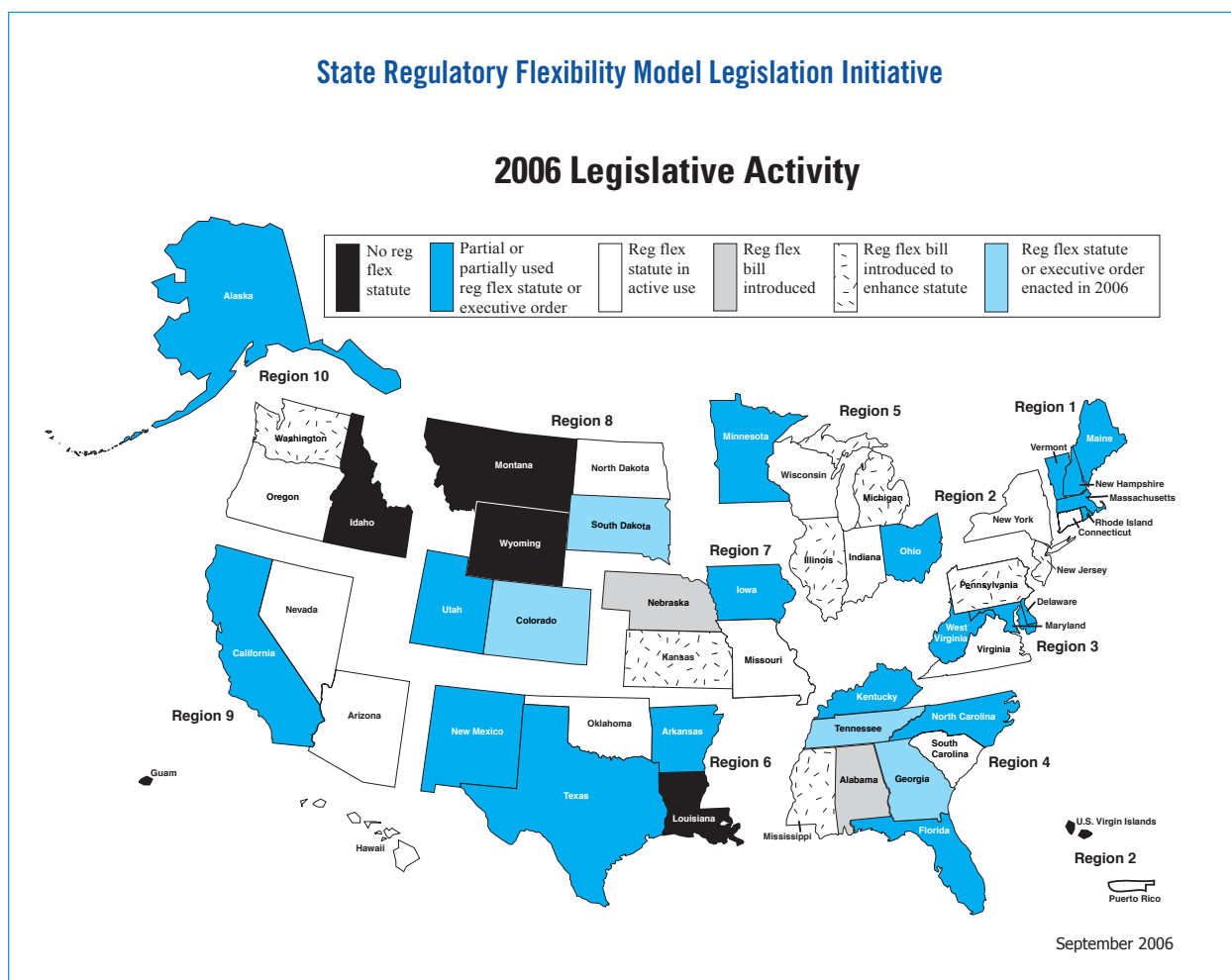
In FY 2006 the SBA had a goal of releasing 25 small business research reports by Advocacy in FY 2006. These research reports inform policymakers by providing a snapshot of small business demographics, demonstrating the importance of the role of small business in the economy, and highlighting the impact of federal policies and regulations on small businesses. In FY 2006, Advocacy released 28 reports, exceeding its goal by 12%.

An Advocacy-sponsored study showed that the smallest firms bear the largest per-employee burden of federal regulatory compliance costs. Firms with fewer than 20 employees annually spend \$7,647 per employee to comply with federal regulations, or 45 percent more than the \$5,282 per employee spent by firms with 500 or more employees.¹¹ The SBA strives to minimize the regulatory burden on small businesses by promoting regulatory flexibility at the state level. The SBA projected that 10 states would formally consider legislative or executive action to increase regulatory flexibility for small businesses in FY 2006.

11 W. Mark Crain, The Impact of Regulatory Costs on Small Firms, U.S. Small Business Administration, Office of Advocacy, 2001
<http://www.sba.gov/advo/research/rs264tot.pdf>

Strategic Goal 1

At the end of the year, 11 states had considered legislative action,¹² and of those 11, two states passed legislation into law.¹³ Also, the governors of Georgia and Tennessee signed Executive Orders. The SBA attributes this success to the Office of Advocacy having a full complement of Regional Advocates aboard for the first time in this Administration. The Regional Advocates work directly with state governments and state stakeholders to educate them about the benefits of regulatory flexibility. The map below shows the status across the Nation of the regulatory flexibility as of the end of FY 2006.



¹² Alabama (HB 320), Colorado (HB 1041), Illinois (HB 5388), Kansas (HB 2821), Michigan (HB 5849/HB 5850, HB 5812), Mississippi (HB 113/SB 2881), Nebraska (LB 1170), New Jersey (A 2327/SB 1335), South Dakota (SB 74, SB 75) and, Washington (HB 1445).

¹³ South Dakota and Colorado.

Strategic Goal 1

Goals Exceeded

Indicator: Regulatory cost savings to small businesses (\$ Billions)		
Target	Result	Above Target by
\$5.6	\$7.25	29%
Reasons for performance result		
The target was exceeded largely because a single outlier rule amounted to \$5.5 billion in cost savings.		
Steps being taken to improve performance or targets		
Advocacy is developing a better method of measuring its overall effectiveness as it is not possible to predict future cost savings with accuracy (because none of the inputs, such as number of rules published annually or cost of rules published annually, are controlled by Advocacy).		
Impact of result		
This cost savings represents money that small businesses will not have to spend to comply with regulations. Instead, the money can be used to purchase new equipment, provide health care, or simply remain competitive.		

Indicator: Research publications		
Target	Result	Above Target by
25	28	12%
Reasons for performance result		
Based on the final, lower than expected prices of the winning research bid, Advocacy was able to produce a greater number of research reports. Also, some research contracts received a no-cost extension, carried over into FY06, and contributed to the higher number of research reports produced.		
Steps being taken to improve performance or targets		
The SBA will try to improve its estimate for FY 2007.		
Impact of result		
The greater number of research reports will contribute to the body of knowledge concerning issues of importance to small businesses.		

Goals Not Met

Indicator: Number of regulatory agencies with in-house RFA expertise		
Target	Result	Below Target by
22	1	-95%
Reasons for performance result		
This goal is measured by classroom training. The FY06 focus shifted to launching the online training system.		
Steps being taken to improve performance or targets		
Classroom training will resume in FY 2007		
Impact of result		
No direct impact on Program.		

Office of the National Ombudsman

Table 5.

Performance Statement Program Level Assistance Strategic Goal 1. Improve the economic environment for small business								
LTO	Ombudsman Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
1.1	Number of Comments Referred to Federal Agencies for Response	Output	N/A	241	128	N/A ^a	152	N/A
1.1	Interaction with Federal Agencies	Output	N/A	231	227	232	236	2% G
1.1	Increase the % of Comments Addressed in 90 Business Days	Intermediate Outcome	N/A	17%	12%	N/A ^b	26%	N/A

Ombudsman Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$1,201	\$1,469	\$1,348	\$1,205	\$1,111

Ombudsman Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Comment (\$)	N/A	\$6,096	\$10,530	N/A	\$7,309

^a FY 2006 Goal not established because indicator implemented after mid-year data call.

^b Ibid.

The Office of the National Ombudsman (ONO) contributes to the SBA's long-term objective to minimize the regulatory burden on small business by receiving comments from small businesses that feel they have experienced unfair or excessive regulatory enforcement actions by federal agencies. Once the SBA receives a comment, it requests that the appropriate federal agency review the specific issues and respond to it within a specified time period. In many instances, the federal agency will reduce or waive particular penalties and/or compliance actions. At a minimum, the agencies direct a high-level review of the enforcement action to ensure fairness. Annually, the SBA prepares and submits a report to Congress on the responsiveness of federal agencies to the comments filed by small businesses.

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A principal issue facing the SBA was how to increase awareness of available assistance in the small business community, especially among small businesses that believe they experienced unfair treatment regarding federal regulatory enforcement or compliance issues. Another issue was establishing and maintaining relationships with federal regulatory agencies to keep them abreast of current SBA policies and procedures and the importance of prompt and quality responses to comments from small business entities.

The Agency increased its use of its field offices to assist in publicizing events, and also communicated through quarterly emails to SBA listserve subscribers. It continued to establish and maintain relationships with other federal agencies through periodic one-on-one meetings with key agency contacts and through semi-annual interagency meetings. Awareness of the program is increased with marketing and outreach during public events.

The SBA continues to measure the number of public events and the number of comments filed with ONO by small businesses to monitor and assess the impact these efforts have had on mitigating these issues. Nevertheless, one of the challenges for the SBA was that many small businesses were reluctant to comment on federal regulatory actions for fear of retaliation by federal agencies. The Agency therefore encouraged other federal agencies to adopt small business non-retaliation policies and will begin rating agencies on their efforts to adopt these policies in its annual report to Congress.

Table 5 above shows that the SBA met its goal for interaction with federal agencies and surpassed performance of the previous year.

E-GOV ASSISTANCE

The President's Management Agenda calls for making government more focused on citizens and results by expanding Electronic Government (or E-Government). E-Government relies on improved Internet-based technologies to make it easy for citizens and businesses to interact with the government, save taxpayer dollars, and streamline citizen-to-government communications. One of the goals is to improve the government's quality of customer service for citizens and businesses, using technology to its fullest to provide services and information to the public.

Like other agencies, the SBA knows that the public, which uses the Internet more than ever before, expects this kind of service. Many millions now use the Internet to communicate to government at all levels about a broad range of policy and regulatory matters. Therefore, where an agency can deploy appropriate technology, it is likely to more fully meet citizen expectations in our increasingly digitized economy.



Business Gateway

Table 6.

Performance Statement Program Level Assistance Strategic Goal 1. Improve the economic environment for small businesses								
LTO	Business Gateway Key Performance Indicators ^a	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
1.2	Broken Links Per Month (Percent)	Output	N/A	N/A	N/A	5%	5%	0% G
1.2	Unique Visitors (Average Number Per Month)	Output	N/A	N/A	N/A	165,000	232,910	41% B
1.2	Hours Saved (Number)	Intermediate Outcome	N/A	N/A	N/A	200,000	4,652,376	2226% B
1.2	Customer Satisfaction (Percent)	Intermediate Outcome	N/A	N/A	N/A	70%	76%	9% G

Business Gateway Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$0	\$2,603	\$10,780	\$13,599	\$16,180

Business Gateway Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per User (\$)	N/A	N/A	N/A	\$82	\$69
Per Hour Saved (\$)	N/A	N/A	N/A	\$0.07	\$0.003

^a New indicators established in FY 2005.

The Business Gateway Initiative managed by the SBA is one of the President's Management Agenda E-Government initiatives to improve the Federal Government's ability to serve citizens through the use of technology. The initiative provides the Nation's businesses with a single, Internet-based access point to government services and information to help businesses with their operations. The Business Gateway simplifies and improves businesses' ability to locate and submit government forms they deal with on a regular basis, and reduces the time and effort needed by businesses to comply with government regulations.

Businesses are excited about how Business Gateway can help, as revealed during recent focus groups. It promises to be a powerful search engine/portal that allows access to government, plain language assistance, and the right contacts within government to help them deal with their regulatory compliance issues. In fact, compliance is the single biggest issue businesses need help with; they want to more easily find, understand, and comply with laws and regulations.

By the close of FY 2006, the Business Gateway team had successfully re-launched **Business.gov** with a major focus on compliance assistance resources and made major strides in addressing businesses' key concerns in simplifying interaction with the Federal Government. As a result of this reengineered effort, the SBA's specific accomplishments include:

- Provided unique "vertical search" capabilities to allow businesses to quickly find key resources;
- Provided a Business Resource Library of useful resources for the entire Federal Government located in one easy to search section of **Business.gov**;

Strategic Goal 1

- Implemented the full national roll out of the Single Source Coal Reporting project (commonly referred to as the “coal vertical”). This project has significantly reduced the reporting burden on the coal industry while at the same time providing a ten to one return on the useful life of the technology;
- Published in conjunction with the OMB, the annual list of business compliance resources available at federal agencies for small businesses as required by the Small Business Paperwork Relief Act; and
- Completed enhancements to the Federal Forms Catalog to more easily find those most sought after by the business community.

As a result of these accomplishments, Business Gateway has significantly increased the number of visitors to its site. Unique visitors, one of the better measures for web site usage, have increased significantly to a monthly average of nearly 233,000 in FY 2006. This has been accomplished with very little active outreach to the business community.

The Business Gateway team facilitated a substantial change in the reporting burden and process within the coal mining community during FY 2006. This data harmonization project, referred to as the “coal vertical,” resulted in the streamlined Single Source Coal Reporting (SSCR) system. Previously, the coal mining industry submitted highly redundant, paper-based forms to multiple regulating entities. As of April 2006, they can submit data and pay fees using a single online form, and have it automatically sent to the appropriate regulators. The SSCR system is reducing the government’s time spent processing related forms by 68.75%. Industry time spent submitting information has been reduced by 50%. The government avoided systems development costs by creating one system that supports multiple agencies and eliminates redundant forms processing efforts across agencies. Currently, the federal partners are the Department of Labor, the Department of the Interior, and the Internal Revenue Service. The state partners are Pennsylvania and Virginia.

In other activities, Business Gateway engaged the business community in conducting usability testing so that the community’s feedback is at the core of the new site re-launched on September 26, 2006. Business Gateway successfully established requirements for a long-term scalable and re-usable data harmonization approach and is actively pursuing several projects similar to the coal vertical. These projects will begin the process of standardizing electronic data submission while at the same time offering up reduction in burden to business and cost savings to the agencies that will participate in the selected opportunity.

Business Gateway received the majority of agency contributions for FY 2006 in the April to May time frame. Over 95% of funds were received and obligated by fiscal year-end, and work continued uninterrupted in a variety of areas.

Goals Exceeded

Indicator: Number of unique visitors (per month)		
Target	Result	Above Target by
165,000	232,910	41%
Reasons for performance result		
The original target of 165,000 unique visitors per month was based on statistical patterns observed since the site’s launch in FY 2004. During the latter half of FY 2005, the Business Gateway Team engaged in focus groups and other forms of market research aimed at understanding how to align Business.gov with the needs of the business community. Changes made to the web site in response to the focus groups and usability studies increased traffic to the site resulting in a higher number of unique visitors than originally predicted.		
Steps being taken to improve performance or targets		
As additional statistical evidence of Business.gov ’s usage by businesses continues to grow we will update our performance targets.		
Impact of result		
This is viewed positively as it reflects growing awareness and use of the web site.		

Indicator: Number of hours saved		
Target	Result	Above Target by
200,000	4,652,376	2226%
Reasons for performance result		
When the original FY 2006 target was identified, no statistical baseline or measuring process existed for determining the number of hours saved by a visitor to Business.gov . In FY 2006, the ForeSee Customer Satisfaction Survey tool was integrated with the web site. This tool collects a variety of information from business representatives electing to complete the survey, including their estimate of hours saved by using the site.		
Steps being taken to improve performance or targets		
This new source of information will be used by the Business Gateway Team to re-evaluate future performance targets.		
Impact of result		
Similar to the variance noted in the number of unique visitors, this is viewed positively as it reflects the direct benefit Business.gov brings to the business community.		

TRADE ASSISTANCE

Office of International Trade

Table 7.

Performance Statement Program Level Assistance Strategic Goal 1. Improve the economic environment for small businesses								
LTO	International Trade Key Performance Indicators ^a	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	Variance
1.3	Participation in Interagency Working Groups (Number)	Output	N/A	6	16	9	11	22% B
1.3	Favorable Policies Inclusion in International Trade (Number)	Output	N/A	5	5	5	6	20% B

^a Trade assistance resources used for this LTO are included in the resources reported under International Trade in Strategic Goal 2.

The SBA, through its Office of International Trade (OIT), sustains presidential and Administration priorities and helps improve the international economic and commercial environment for small business participation in trade. The SBA strives to make small business concerns part of the Administration's international trade priorities.

For example, in FY 2006, OIT represented SBA on two Cabinet-level trade groups: the interagency Trade Promotion Coordinating Committee and the President's Export Council. The SBA contributed to the 2006 National Export Strategy, and succeeded in having small business issues included in the action plan of the Summit of the Americas. The SBA provided an analysis of U.S.-China trade and economic relations to the President's Export Council. In addition, the SBA contributed to the planning for the Africa Growth and Opportunity Act trade ministers' forum.

Strategic Goal 1

The Commerce Department relied on the SBA to support the government with two inter-governmental multilateral trade organizations, the Organization for Economic Cooperation and Development and Asia-Pacific Economic Cooperation, devising and advancing the U.S. position on international trade and small business. The State Department frequently turned to the SBA for support for the International Year of Microcredit, reform of the U.S. foreign aid program, SME development in Russia and the Commission for Assistance to a Free Cuba. All of these efforts enabled the SBA to participate in interagency working groups to sustain favorable policies for small business in international trade.

Goals Exceeded

Participation in Interagency Working Groups		
Target	Result	Above Target by
9	11	22%
Reasons for performance result		
The increased demands by the U.S. Government to have SBA's Office of International Trade participate in more activities regarding trade promotion and trade policy issues has created more opportunities for the SBA to represent the interests of small businesses in these activities.		
Steps being taken to improve performance or targets		
None		
Impact of result		
This has created more opportunities for the SBA to represent the interests of small businesses in these activities.		

Indicator: Favorable Policies Inclusion in International Trade		
Target	Result	Above Target by
5	6	20%
Reasons for performance result		
SBA's increased participation in USG working groups has also resulted in the continued (and increasing) number of USG Trade Policies where SBA has been an active participant and contributor to such policies that impact U.S. small business exporters.		
Steps being taken to improve performance or targets		
Targets for small samples are difficult to set. The SBA is evaluating other possible indicators.		
Impact of result		
No impact.		

PROCUREMENT ASSISTANCE

The strength of our Nation's economy is fortified when competitive and innovative small businesses are able to participate in the federal marketplace and provide solutions to the many challenges facing the Federal Government. The SBA assists other agencies in taking advantage of the resource represented by small businesses, at the same time that small businesses grow stronger by benefiting from federal contracting opportunities. This section describes the programs that the SBA has implemented for achieving this objective, and the performance indicators that measure their success.

The SBA works to increase the breadth and strength of the national industrial base and the number of jobs supported by the small business sector through programs having to do with federal contracting. In FY 2006 the Agency did this by pursuing accountability, transparency and efficiency in contracting, by being driven by outcomes and customer needs, and by enhancing the skills and abilities of its employees.

The SBA provided procurement assistance to the small business community through two principal programs: Prime Contracting Assistance and Subcontracting Assistance.

Prime Contracting Assistance

Table 8.

Prime Contracting Program Program Level Assistance Strategic Goal 1. Improve the economic environment for small business								
LTO	Prime Contracting Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
1.3	Increase the Number Of Federal Contract Dollars Awarded to Small Businesses (\$ Billion)	Output	\$65.5	\$69.2	\$79.6	\$73.0	UNAVAIL ^a	N/A
1.3	Jobs Created/ Retained (Number)	Intermediate Outcome	N/A	523,000	562,000	612,000	UNAVAIL ^b	N/A

Prime Contracting Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$16,507	\$23,158	\$15,384	\$13,777	\$18,853

Prime Contracting Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Dollar Awarded (\$)	\$252,010	\$334,649	\$193,266	\$188,709	UNAVAIL
Per Job (\$)	N/A	\$44	\$27	\$23	UNAVAIL

^a This data will not be available from FPDS-NG until the second quarter of FY 2007.

^b This calculation is based on of FY 2006 data from FPDS-NG, which will not be available until the second quarter of FY 2007.

Strategic Goal 1

Through Prime Contracting Assistance, the Agency establishes government-wide goals for socio-economic procurement preference programs. It also monitors performance; coordinates with acquisition agencies at the buying activity level; and conducts surveillance reviews to assess the effectiveness of agencies in providing small business opportunities. The SBA issues certificates of competency on behalf of small firms if their ability to perform is challenged by contracting officers; and, if their eligibility is protested, determines whether or not firms fit the definition of “small business.”

The SBA worked this year with the public and private sectors to help make the federal procurement goaling process more transparent and easily understood, and to make contracting data more accountable and accurate. A broader understanding of the process will encourage acquisition agencies to award a larger share of their requirements to small businesses. This, in turn, will increase the revenue of the small business sector and the number of jobs that it will support.

During FY 2006, the Agency developed a scorecard process to monitor and measure acquisition agencies’ success in achieving procurement preference program goals and to measure progress in improving performance. It is expected that the system will be implemented government-wide during FY 2007. By increasing the visibility of evaluation with a broadly recognized and easily understood management tool, and by giving effect to performance direction and initiatives, the SBA builds incentives for agencies to increase awards to small businesses.

The SBA also worked with other federal agencies to reduce errors in entering size information into the Federal Procurement Data System-Next Generation (FPDS-NG). Further, the Agency worked with the Integrated Acquisition Environment (IAE) to make changes in systems that will reduce the possibility of a vendor that is “large” being miscoded in federal contracting reports as “small.” These steps will increase the accountability and transparency of federal contracting activity.

The SBA published proposed regulations during FY 2006 that addressed the award of contracts to women-owned small businesses. It also commissioned a rigorous disparity study by an external organization to identify industries in which women-owned small businesses are under-represented. This will serve as a basis for set-aside of requirements in specific industries for competition among such firms. These actions will increase opportunities for women-owned firms to participate in federal contracting.

During the year, the SBA finalized a rule requiring periodic recertification of size on long-term contracts to ensure accuracy in reporting, and to encourage agencies to pursue new small business sources. This regulation, which will increase transparency and accountability in contracting, is expected to be published early in FY 2007.

The SBA also developed functional requirements for the Electronic Procurement Center Representative (EPCR) system, and collaborated with the U.S. Department of Defense to design and develop it as part of the IAE. The EPCR will provide for capture of acquisition agencies’ requirement-specific pre-solicitation information and for automated review of “full and open” requirements. It will also permit the SBA to intervene in more acquisition processes earlier and more efficiently, thereby securing greater set-aside of requirements for small businesses. The system will capture past performance information for socio-economic procurement preference programs at the buying activity level, and will generate potential vendor lists under such programs.

During FY 2006, the SBA enhanced the skill sets of its contracting employees and the training opportunities available to them. Specifically, it extended the reach of teleconferencing to government contracting staff nationwide on a monthly basis. More important, the Agency conducted the first national training conference for this program in nearly a decade. The insights gained will help in planning future contracting program activities.

Gulf Coast Hurricanes

The SBA is committed to ensuring that small businesses located in the Gulf Coast area receive fair opportunities to help in the rebuilding effort. This effort has resulted to date in approximately \$3.2 billion in contract support awarded to small businesses, representing 31% of the total. The main components of this initiative have been:

- The SBA has assigned two employees on-site at the National Hurricane Contract Information Center to provide information to small businesses seeking Hurricane Katrina prime and subcontracting opportunities.
- The SBA has assigned one of its senior executives with Federal Government contracting and business development experience to coordinate the SBA's government contracting assistance.
- The SBA has engaged all Procurement Center Representatives around the country to work with federal agencies to identify procurement opportunities for small businesses in the affected area.
- On November 1, 2005, the SBA launched a special Business Matchmaking initiative to assist small businesses in Gulf states impacted by the hurricanes.

SUCCESS STORY

When the Big Contract Knocked, SBA Opened the Door

Oscar Quiles spent most of his professional life working in the sewing industry and learning everything about it. In 2003, he heard that a company in Sabana Grande, Puerto Rico that makes work uniforms was on the market. They were planning to shut down and sell the equipment. Oscar was about to make the owners an offer to buy the equipment. But, when he considered that 50 people would become unemployed overnight, Oscar had a change of heart. He called the owners and made a different kind of offer. "They agreed to sell the company and I agreed to keep those 50 people employed," Oscar says.

In February 2004, Pentaq Manufacturing Corporation was born, specializing in the manufacture of commercial military clothing, military uniforms and related products. The firm became a subcontractor for an Alabama-based vendor and for Caribbean Needlepoint, Oscar's family's business. The company had sales of \$790,000 in the first year. Oscar had no doubt that Pentaq had growth potential. He lacked, however, working capital to increase his production. That's when he visited the Puerto Rico Small Business Development Center for help in developing a solid business plan and a loan proposal he could take to the bank.

In 2005, Oscar obtained a \$150,000 SBA-guaranteed loan and a \$200,000 revolving line of credit. He identified a \$3.2 million contract with the Department of Defense to manufacture uniforms and tents for U.S. troops and, more importantly, he created 100 new jobs. Pentaq Manufacturing closed its books in 2005 with \$1.2 million in revenues. In September, Pentaq began production of the new universal uniforms U.S. soldiers will wear, a fact that Oscar is extremely proud of.



Strategic Goal 1

Subcontracting Assistance

Table 9.

Performance Statement Program Level Assistance Strategic Goal 1. Improve the economic environment for small businesses					
Subcontracting Budgetary Resources ^a	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$6,104	\$3,408	\$3,149	\$2,825	\$3,712

^a Only cost data is shown for Subcontracting. Subcontracting uses the same indicators as Prime Contracting; however, performance data is not expected to be available until December 15, 2006.

Through Subcontracting Assistance, the Agency works with large prime contractors to increase substantive small businesses participation in the federal marketplace as subcontractors. To do this, the SBA monitors the establishment and execution of subcontracting plans on larger prime contracts; conducts prime contractor compliance reviews; provides training and technical assistance to prime contractors in developing small business sources; and reports and evaluates performance.

During FY 2006, the SBA used technology to improve the reach and effectiveness of its prime contracting and subcontracting programs. Under the aegis of the Integrated Acquisition Environment, pursuant to the President's Management Agenda for Electronic Government, the SBA deployed the Electronic Subcontracting System (ESRS). This system replaced submission of paper reports on subcontracting activity by prime contractors with electronic Internet-based reporting. This initiative increased the transparency, accountability and efficiency of the subcontracting reporting process. By automating these business processes and making reporting simpler and more reliable, the Agency will be able to better gauge the performance of prime contractors in making subcontracting opportunities available to small businesses under their subcontracting plans.

Subcontracting data for FY 2004 and FY 2005 is not yet available. The reason is that during FY 2006, under the auspices of the Integrated Acquisition Environment, the Agency implemented the ESRS for non-Defense agencies. The system superseded manual submission of individual and Summary Subcontracting Reports with Internet data capture and reporting. Accordingly, data has been migrated from several sources, delaying first-time reporting. FY 2004 and FY 2005 data is expected to be available by December 15, 2006.

Statutory Small Business Procurement Goals for Federal Agencies

The Federal Government purchases billions of dollars in goods and services each year. To ensure that small businesses get their fair share, statutory goals have been established for federal executive agencies. They are:

- Twenty-three percent of prime contracts for small businesses;
- Five percent of prime and subcontracts for small disadvantaged businesses;
- Five percent of prime and subcontracts for women-owned small businesses;
- Three percent of prime contracts for HUBZone small businesses;
- Three percent of prime and subcontracts for service-disabled veteran-owned small businesses.

In addition to the goals established, the Small Business Act 15(g)(1) also states that it is the policy of the United States that each agency shall have an annual goal that represents, for that agency, the maximum practicable opportunity for small business concerns.

2005 PRIME CONTRACT GOALS ¹⁴												
AGENCY	SB Goal % of Total Prime \$	SB Achieved	8(a) Goal % of Total Prime \$	8(a) Achieved	SDB Goal % of Total Prime \$	SDB Achieved	WOSB Goal % of Total Prime \$	Women Achievement	HZ Goal % of Total Prime \$	HZ Achievement	SDVO/SB Goal % of Total Prime \$	SDVO/SB Achievement
Department of Agriculture	45.00%	49.53%	5.00%	3.29%	5.00%	8.30%	5.00%	5.31%	3.00%	9.10%	3.00%	0.60%
Department of Commerce	44.80%	51.96%	6.11%	6.11%	10.35%	15.53%	7.80%	9.63%	3.00%	2.20%	3.00%	1.27%
Department of Defense	23.00%	24.57%	2.60%	3.24%	3.10%	6.63%	5.00%	3.00%	3.00%	1.94%	3.00%	0.49%
Department of Education	23.00%	9.20%	4.00%	1.13%	1.00%	3.01%	5.00%	2.50%	3.00%	0.23%	3.00%	0.08%
Department of Energy	5.50%	4.11%	2.20%	0.85%	1.00%	1.35%	5.00%	0.57%	1.50%	0.19%	1.50%	0.21%
Department of Health and Human Services	30.32%	29.40%	5.50%	4.20%	11.12%	9.05%	5.05%	5.30%	3.03%	1.80%	3.00%	0.51%
Department of Homeland Security	23.00%	46.63%	2.50%	2.94%	2.50%	7.57%	5.00%	4.53%	3.00%	2.05%	3.00%	0.48%
Department of Housing and Urban Development	38.13%	63.56%	6.09%	18.73%	7.07%	37.20%	15.03%	24.30%	3.00%	6.74%	3.00%	1.52%
Department of Justice	31.50%	34.63%	3.70%	2.20%	12.00%	5.18%	5.00%	6.40%	3.00%	1.15%	3.00%	0.78%
Department of Labor	26.00%	33.68%	4.84%	2.95%	5.20%	11.20%	5.20%	5.28%	3.00%	1.33%	3.00%	0.83%
Department of State	40.00%	35.32%	7.00%	2.17%	7.00%	13.29%	5.00%	6.23%	3.00%	0.16%	3.00%	2.01%
Department of the Interior	56.14%	55.24%	8.26%	11.41%	8.91%	21.67%	5.47%	8.97%	3.13%	8.96%	3.00%	1.09%
Department of the Treasury	24.25%	36.88%	9.00%	2.40%	5.00%	7.78%	5.60%	6.66%	3.00%	0.48%	3.00%	0.28%
Department of Transportation	38.00%	44.57%	9.34%	9.36%	6.00%	12.68%	5.00%	6.64%	3.00%	4.18%	3.00%	0.83%
Department of Veterans Affairs	27.00%	28.45%	4.00%	5.16%	4.00%	4.00%	5.00%	4.67%	3.00%	3.29%	3.00%	2.15%

Strategic Goal 1

2005 PRIME CONTRACT GOALS ¹⁴												
AGENCY	SB Goal % of Total Prime \$	SB Achieved	8(a) Goal % of Total Prime \$	8(a) Achieved	SDB Goal % of Total Prime \$	SDB Achieved	WOSB Goal % of Total Prime \$	Women Achievement	HZ Goal % of Total Prime \$	HZ Achievement	SDVO SB Goal % of Total Prime \$	SDVO SB Achievement
Agency for International Development	44.25%	N/A	1.23%	N/A	24.56%	N/A	5.00%	N/A	3.00%	N/A	3.00%	N/A
Environmental Protection Agency	27.00%	33.70%	6.30%	4.76%	3.00%	12.00%	5.00%	4.65%	3.00%	1.01%	3.00%	0.20%
General Services Administration	43.00%	34.95%	5.00%	5.43%	8.00%	10.73%	5.00%	6.19%	3.00%	4.06%	3.00%	1.20%
National Aeronautics and Space Administration	16.16%	14.44%	3.69%	3.21%	3.00%	6.47%	5.00%	2.08%	3.00%	0.28%	3.00%	1.12%
National Science Foundation	23.00%	36.50%	2.50%	7.24%	2.50%	18.20%	5.00%	14.80%	3.00%	1.96%	3.00%	4.38%
Nuclear Regulatory Commission	28.00%	36.69%	4.00%	9.55%	4.00%	13.35%	5.00%	8.17%	3.00%	1.72%	3.00%	0.00%
Office of Personnel Management	19.90%	34.14%	2.20%	0.25%	3.40%	6.03%	5.00%	15.97%	3.00%	0.05%	3.00%	0.13%
Small Business Administration	60.00%	72.10%	20.00%	29.12%	16.00%	53.70%	10.00%	18.75%	3.00%	6.04%	3.00%	0.50%
Social Security Administration	33.50%	35.92%	8.50%	6.73%	5.80%	10.12%	5.00%	5.21%	3.00%	2.13%	3.00%	0.42%
Statutory (or SBA Assigned Goals)	23.00%		2.50%		2.50%		5.00%		3.00%		3.00%	

¹⁴ USAID is still in the process of entering their FY05 data into FPDS-NG, therefore this report is not a complete reflection of their small business achievement. USAID is working diligently to enter their data.

Small Disadvantaged Business Certification Program

Table 10.

Performance Statement Program Level Assistance Strategic Goal 1. Improve the Economic Environment for Small Business.								
LTO	SDB Key Performance Indicator	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
1.3	Small Businesses Certified	Output	N/A	856	968	1,000	734	-27%

R

SDB Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$4,750	\$5,108	\$1,614	\$2,120	\$1,772

SDB Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Small Business Certified (\$)	N/A	\$5,967	\$1,667	\$2,120	\$2,414

The Small Disadvantaged Business Certification Program is funded through an Economy Act agreement with federal procuring agencies. The SBA bills the agencies for its certification services. In FY 2006 the volume of incoming applications decreased from previous years because the Price Evaluation Credit for civilian agencies expired. The Price Evaluation Credit gave small disadvantaged businesses an advantage over other small businesses vying for the same prime contracts. Without it, small disadvantaged businesses only perceive a value in this certification when seeking subcontracts from large prime contractors that get credit for including small disadvantaged businesses in their subcontracting plans.

Goals Not Met

Indicator: Small Businesses Certified		
Target	Result	Below Target by
1,000	734	-27%
Reasons for performance result		
Fewer small businesses were certified than anticipated because volume of incoming applications decreased and application processing slowed down due to new requirements for paper documentation. Small businesses see little value in SDB certification since the Price Evaluation Credit for civilian agencies expired. SDB certification is only valuable for subcontracting opportunities.		
Steps being taken to improve performance or targets		
The Program's annual targets were overestimated.		
Impact of result		
No adverse impact is expected.		

Strategic Goal 1

Business Matchmaking

Table 11.

Performance Statement Program Level Assistance Strategic Goal 1. Improve the economic environment for small business								
LTO	Business Matchmaking Key Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
1.3	Small businesses assisted via pre-scheduled selling meetings (number)	Output	7,971	13,422	14,806	158,879	178,368	12%

B

Business Matchmaking Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program Cost (\$000)	\$434	\$4,622	\$5,585	\$5,111	\$5,526

Business Matchmaking Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Business Assisted	\$54.4	\$344.4	\$377.2	\$32.2	\$31.0

It should be noted that, among procurement-related technical assistance efforts, Business Matchmaking provides unique opportunities for small businesses. Each matchmaking event offers individual counseling from SBA and its resources partners, training on how to do business with the government and the private sector, opportunities for small vendors to meet with federal and commercial buyers, and follow-up counseling.

In FY 2006, the SBA hosted a special matchmaking initiative in the Gulf Coast area to help small businesses devastated by the hurricanes by matching them with buying organizations throughout the country. In addition the Agency rolled-out its online matchmaking system nationwide. By hosting pre-scheduled appointments via the telephone, online matchmaking offers the same benefits to small vendors as do its regional events without the associated travel costs. Online Matchmaking also offers small businesses email updates, newsletters, webinars, and online counseling and workshops. The SBA has facilitated more than 40,000 one-on-one pre-scheduled appointments and, including its Gulf Coast efforts, is responsible for over \$700 million in contracts awarded to small businesses.

DID YOU KNOW?



What is the difference between 8(a) certification and SDB certification?

The 8(a) program is a business development program that offers a broad scope of assistance to socially and economically disadvantaged firms. SDB certification strictly pertains to benefits in Federal procurement. 8(a) firms automatically qualify for SDB certification.

Goals Exceeded

Indicator: Small businesses assisted via pre-scheduled selling meetings (number)		
Target	Result	Above Target by
158,879	178,368	12%
Reasons for performance result		
Due to two new components being added, the Gulf Coast BMM Initiative and the BMM Online being open to small businesses nationwide.		
Steps being taken to improve performance or targets		
A revised Goal for FY07 will be implemented.		
Impact of result		
No adverse impact is expected.		



Strategic Goal 2

STRATEGIC GOAL 2

Increase small business success by bridging competitive opportunity gaps facing entrepreneurs

Small businesses represent an essential mechanism by which millions enter the economic and social mainstream of American society. They tend to be dynamic in their processes and their response to opportunities in the marketplace, and arrive faster at management decision-making. They create new opportunities for employment, and play a crucial role in experimentation and innovation, which leads to technological change and productivity growth.¹⁵

Strategic Goal Two represents the SBA's commitment to helping small businesses overcome the competitive opportunity gaps often faced by entrepreneurs. The SBA empowers individual entrepreneurs to take advantage of the opportunities the market offers by providing knowledge, skills and technical assistance; access to loans and equity; and procurement opportunities, either directly or through its partners. While the SBA programs benefit all entrepreneurs seeking its assistance, the Agency places particular emphasis on groups that own and control little productive capital and have limited access to markets.

The Agency strives to meet this Strategic Goal by focusing on the following Long-Term Objectives:

LTO 2.1: Increase the positive impact of SBA assistance upon the number and success of small business start-ups.

LTO 2.2: Maximize the sustainability and growth of existing small businesses assisted by SBA.

LTO 2.3: Significantly increase successful small business ownership within segments of society facing special competitive opportunity gaps (SCOG).

Under this Strategic Goal, the SBA provides three main types of assistance: Financial, Management, and Procurement. The following sections cover the key achievements and challenges faced by the programs that provide the assistance. The MD&A covers how successful the Agency was as a whole in helping small businesses succeed.

FINANCIAL ASSISTANCE

Having access to capital when needed, and under the right conditions, is vital to the success of small businesses. This need changes as the business goes through the various stages in its lifecycle, from a possibility to a vibrant, successful business.

Small firms are vulnerable because of their dependency on financial institutions for external funding. These firms simply do not have access to public capital markets. As a result, shocks to the banking system can have a significant impact on the supply of credit to small businesses. Thus, small firms are subject to funding problems in equilibrium and these problems may be exacerbated during periods of disequilibrium in financial markets¹⁶.

DID YOU KNOW?

Commercial banks are the largest suppliers of debt capital to small firms. In June 2004, small business loans outstanding owed to commercial banks amounted to \$522 billion.

15 The New American Evolution: The Role and Impact of Small Firms, U.S. Small Business Administration, Office of Advocacy, 1998. http://www.sba.gov/ADVO/stats/evol_pap.html

16 Small Business Credit Availability and Relationship Lending: The Importance of Bank Organizational Structure, Berger, *Economic Journal*, 2002. <http://www.federalreserve.gov/pubs/feds/2001/200136/200136pap.pdf>

Strategic Goal 2

The SBA has structured its programs to be able to fill the financial gap as determined by differing financial markets and the various stages of a small business lifecycle. The SBA provides loans through its 7(a) loan, 504 loan, and Microloan programs, as well as equity and mezzanine financings through its SBIC program.

The Agency has placed its focus on providing financing assistance that is effective and at the lowest possible cost to the taxpayer. It achieves this by managing well three major areas — processing, servicing, and liquidation. Processing represents reviewing and approving, screening out for incompleteness, or declining loan applications from lenders. Servicing activities include reviewing and either approving or declining loan modifications from lenders such as collateral releases or substitutions, ensuring that lenders are reporting the status of their loans correctly, reviewing purchase requests from lenders, and reviewing lenders' plans to liquidate the collateral securing a defaulted loan. Liquidation activities include seeking recoveries and writing-off non-performing loans.

7(a) Loan Program

Table 12.

Performance Statement Program Level Assistance								
Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	7(a) Loans Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.1	New Loans Approved: Start-up SB (Number)	Output	15,588	18,134	29,587	33,024	32,983	0% G
2.1	New Loans Funded (number): SSB	Output	13,559	15,945	27,522	29,400	30,753	5% G
2.1	Start-up Small Businesses Assisted (Number) ^a	Intermediate Outcome	13,122	15,351	25,806	28,224	27,368	-3% G
2.2	New Loans Approved: Existing SB (Number)	Output	51,793	62,999	66,313	73,536	64,307	-13% R
2.2	New Loans Funded (Number) :ESB	Output	45,981	56,234	61,323	65,900	59,730	-9% G
2.2	Existing Small Businesses Assisted (Number) ^b	Intermediate Outcome	43,023	53,544	57,296	62,144	52,935	-15% R
2.3	New Loans Approved: SCOG (Number)	Output	41,605	60,787	74,307	76,690	71,326 ^c	-7% G
2.3	New Loans Funded (Number): SCOG	Output	36,705	54,250	68,540	68,561	66,300 ^d	-3% G
2.3	SCOGs Assisted (Number) ^{f,g}	Intermediate Outcome	35,203	52,075	64,390	64,377	60,691 ^e	-6% G
Small Businesses Assisted ^h			56,145	68,895	83,102	N/A ⁱ	80,303	N/A ^j
New Loans Funded ^k			59,540	72,179	88,845	N/A ^l	90,483	N/A ^m

7(a) Loans Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 ⁿ Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$216,516	\$188,995	\$73,238	\$67,581	\$72,485
Loan Approving (\$000)	\$165,405	\$162,812	\$49,672	\$45,865	\$41,741
Loan Servicing (\$000)	\$19,013	\$13,436	\$16,362	\$14,943	\$17,190
Loan Liquidation (\$000)	\$32,098	\$12,747	\$7,205	\$6,773	\$13,554

(Table and footnotes continued on next page)

Strategic Goal 2

7(a) Loans Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Loan Funded (\$)	\$2,778	\$2,256	\$559	N/A	\$461
Per Loan Liquidated (\$) ^o	\$5,081	\$2,012	\$1,175	N/A	\$1,614 ^p
Per Business Assisted (\$)	\$3,856	\$2,743	\$881	N/A	\$903

^{a, b} This represents the number of unique firms receiving 7(a) loans as of September 30 of the fiscal year. It is lower than Net Loans Funded, because some firms receive more than one loan in a fiscal year.

^{c, d, e} SCOG loans made in economically distressed areas maybe overstated due to errors in geo-coding.

^f This represents the number of unique firms receiving 7(a) loans as of September 30 of the fiscal year. It is lower than Net Loans Funded, because some firms receive more than one loan in a fiscal year.

^g SCOGs are a subset of startup and existing small businesses.

^h This is the sum of start-ups and existing small businesses with loans funded during the fiscal year.

^k Calculated as loans originated for start-ups and existing firms, minus cancelled for the fiscal year as of September 30.

^{i, j, l, m} The total is used only to calculate the unit cost. It does not constitute a performance indicator.

ⁿ Total program cost declined as net default subsidies became fully funded by borrower and lender fees in FY 05 and in subsequent years.

^o Targets are not set for liquidating loans.

^p Calculated based on the number of loans purchased during the fiscal year. Historical numbers were changed as a result of the data validation process.

The financial vulnerability of small businesses can make SBA 7(a) loans a vital resource at any given time. The program serves as the Agency's primary business loan program to help qualified start-up and existing small businesses obtain financing when they might not be eligible for business loans through normal lending channels. It is also the Agency's most flexible business loan program because financing under this program can be guaranteed for a variety of general business purposes, can be revolving or non-revolving, and can have a maturity as short as a couple of months or as long as 25 years.

Sources of financing are a critical need at the beginning stages of a small business, and the type of financing has long-lasting effects on the success or failure of the business. Because most start-ups are unincorporated ¹⁷ (frequently sole proprietorships), important sources of funds to nascent entrepreneurs are personal savings and debt. As a result of perceived shortage of credit and inefficient operation of credit markets, these small businesses often use an owner's own personal and business credit cards. This type of debt is a costly option for an entrepreneur. High-cost debt can cause strains in everyday operations, cash-flow problems, and, in the worst case, lead to bankruptcy.

In FY 2006, the SBA approved 97,290 7(a) loans. Small business start-ups accounted for 32,983, or 33.9%, of those approved, substantially meeting the goal of 33,024 loans to entrepreneurs within two years of starting their business. After accounting for cancellations by loan applicants, the total net loans funded for start-ups were 30,753, which exceeded the FY 2006 goal by 5%.

In FY 2006, the SBA funded 59,730 7(a) loans to 52,935 existing businesses ¹⁸. This number, while not meeting the goal of 65,900 7(a) funded loans still represents a sizable source of growth capital to existing businesses. The number of existing small businesses assisted fell short by 15%. This may have been due to the dramatic increase during FY 2006 in the cost of

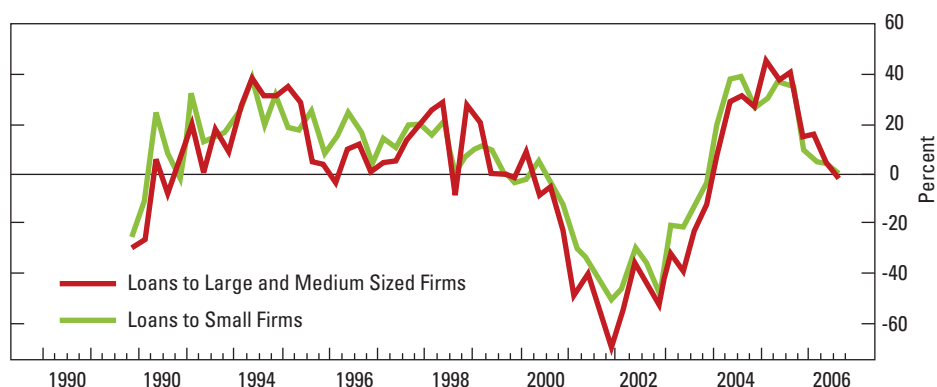
17 Michelle White, *Bankruptcy and Small Business, Will Reform Harm Small Business*, September 2001.
<http://www.cato.org/pubs/regulation/regv24n2/white.pdf>

18 Some businesses received more than one 7(a) loan to meet their financial needs, usually a term loan for fixed assets or real estate and a separate revolving loan for working capital.

borrowing, with the movement of prime from a low of 6.75% at the beginning of the fiscal year to the current high of 8.25%, resulting in small business owners delaying establishment or expansion of their businesses.

Figure 1.

Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans



The following figure (Figure 1) from the July 2006 Senior Loan Officer Opinion Survey on Bank Lending Practices ¹⁹ shows how in FY 2006 the net demand by small firms ²⁰ for commercial and industrial (C&I) loans decreased from FY 2005.

In response, a large percentage of domestic banks indicated that they had trimmed the spread of loan rates over their cost of funds for such firms during the same period, while some also eased their lending standards. Two of the main reasons cited by lenders were a more favorable or less uncertain economic outlook, and increased tolerance for risk. The willingness of lenders to decrease their spread without tightening their lending standards, while experiencing an increased tolerance for risk, may have reduced the need for SBA loans among existing businesses that were seeking credit. Yet, during this same period for another segment of businesses, the cost of credit was too high even with the cap in the interest rates of 7(a) loans with respect to the prime rate.

An effort by the SBA to reach out to more small businesses is *SBAExpress*. This program reduces the cost to lenders of using the SBA's guaranty by permitting them to use, to the greatest extent possible, their own documents and processes. *SBAExpress* also permits lenders to charge a higher interest rate to small business borrowers than the traditional 7(a) loan program.

During FY 2006, the SBA successfully increased the capital available to certain segments of society that face special competitive opportunity gaps. These segments include African Americans, Asian Americans, Hispanics, Native Americans, other minorities, women, and rural and small businesses in economically distressed areas.

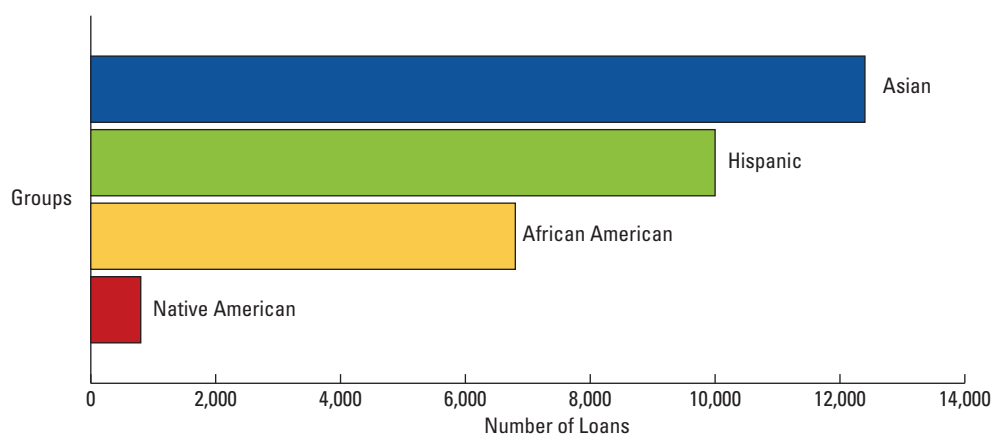
In an attempt to reduce barriers to groups in these categories, the SBA funded 66,300 loans through its 7(a) loan program in FY 2006, 3% below both the FY 2006 goal and FY 2005 performance. The breakdown of these loans is as follows: 7(a) loans to minority-owned small businesses represented 33% of all the 7(a) approved loans. This continues an upward trend since FY 2000, when minority-owned small businesses received 25% of all approved 7(a) loans. Women-owned businesses were 22%, and rural businesses were 20% of the 7(a) approved loans. Figure 2 shows the breakdown by race and national origin for the

¹⁹ Senior Loan Officer Opinion Survey on Bank Lending Practices, The Federal Reserve Board, <http://www.federalreserve.gov/boarddocs/SnLoanSurvey/>

²⁰ The Federal Reserve Board considers small firms to be those with annual sales of less than \$50 million.

Strategic Goal 2

Figure 2.

7(a) Loans to Minorities by Race and National Origin
FY 2006

7(a) loans guaranteed to minorities in FY 2006. The numbers are not additive since the same loan may be present in more than one category.

In FY 2006 the SBA made a conscious effort to adopt processes that ensure the most efficient, streamlined use of resources to achieve its goals. The Agency continued to move from direct loan management to lender management, a process that has required it to place more responsibility on participating lenders and to centralize the loan purchasing and liquidation responsibilities that the SBA retained. Through the implementation of new technologies that enable prudent risk management and more efficient use of SBA resources, the Agency has taken charge of the loan liquidation process. During FY 2006 the SBA continued to implement portfolio management practices including:

Centralized Operations — The SBA has moved most of the loan processing, servicing, liquidation and guaranty purchase functions from district offices to centers for both 7(a) and 504 loans. Only a small fraction of loan processing remains with the district offices. Centralizing these remaining functions will take place during FY 2007. To date, centralized operations have allowed for more consistent application of SBA requirements, resulting in more efficient operations. Centralizing loan liquidation processes has shifted scarce SBA resources towards ensuring efficient and effective oversight of lender liquidation activity, thereby freeing up resources to assist small businesses.

National Preferred Lender Program Status — National status for preferred lenders has been implemented, allowing any preferred lender to make loans anywhere in the Nation. This change eliminates the need to coordinate approvals and renewals of the preferred status with the 68 SBA district offices and allows lenders to determine where they want to use their preferred status. Streamlining has given more authority to participant lenders to further simplify the loan-making and servicing process and encourage more loan activity.

Liquidation Backlog Reduction — After the SBA purchases a non-performing 7(a) loan, it must decide whether to try to recover the funds or to charge off the loan. At the beginning of FY 2006, the Agency had a backlog of 6,700 loans that were purchased two or more years ago and totaling in excess of \$800 million. The SBA addressed this backlog in liquidations of 7(a) loans by reviewing and charging off over 6,000 loans for which the SBA determined it had exhausted all pre-charge off recovery efforts, allowing the Agency to pursue potential post-charge off recoveries of \$50 million.

The streamlining of operations had to overcome some significant challenges, especially in the area of Human Capital. According to the OIG and the GAO, the SBA applied some key practices important to successful organizational change but overlooked

aspects that emphasize transparency and communication. For example, the Agency did not develop a comprehensive transformation plan, to inform and make employees aware of major workforce changes that would affect them until after the changes had been implemented. This resulted in problems establishing the National Guaranty Purchase Center. The SBA recognized that lack of employee involvement in the decision-making process or timely communication of a transformation strategy can breed uncertainty and mistrust, resulting in poor employee morale and reduced commitment and productivity. This may have been reflected in the FY 2004 government-wide employee survey that revealed substantial morale problems at the SBA.

To correct this situation, the Agency has now drafted, and plans to issue to employees, a transformation strategy including staffing and training plans to support the transformation process. The SBA also developed a staffing plan and continues to analyze the tasks performed, skills required, and time standards for each of the major tasks to determine the appropriate staffing required to eliminate the backlog and to manage estimated future workload. However, the turnover of experienced loan officers has been a significant challenge since higher-graded federal positions are readily available in the Washington DC area. In addition, an online training course on the purchase process was implemented, which was complemented with periodic on-site training and individualized instruction by experienced personnel.

Lender Oversight

Because the SBA guarantees up to 85% of each 7(a) loan made by its lending partners, there is risk to the Agency if the loans are not repaid. Since FY 2003, the SBA's portfolio of 7(a) loans has grown over 18% to the point that the outstanding balance of the 7(a) guaranteed loan portfolio exceeded \$32.9 billion by the end of FY 2006. Over the past decade, a combination of increased loan volume and limited SBA resources has put a strain on the SBA's operations and the Agency's ability to efficiently perform loan making, servicing and liquidation activities. In addition, the SBA services the \$6.8 billion (as of 9/30/06) portfolio of direct disaster loans that it has made to assist victims of disasters. Portfolios of these sizes are significant by any measure and constitute potential risk to the taxpayer.

As the largest gap lender for small businesses, SBA necessarily takes more risk than a conventional lender. While SBA must determine the level of credit risk it will tolerate, it must do so within the context of its mission and its programs' structures. To do so, it requires an effective participant oversight program to mitigate the increased risk of financial loss to SBA. The SBA's implementation of lender oversight monitoring and analyses is typical of "best practices" among major lenders, and recommended by financial institution regulators.

The Loan and Lender Monitoring System is a state-of-the-art portfolio monitoring system that incorporates credit scoring metrics for portfolio management purposes. During FY 2006, credit scores combined with current and historical performance of lenders allowed the SBA to assign risk ratings to lenders. This was the primary basis by which lower-volume lenders were evaluated, while at the same time providing an assessment and a monitoring tool for the most active SBA lenders. In addition, lenders were given access to their risk ratings and performance metrics, allowing them to take the initiative to address data quality and performance issues in order to improve their risk ratings. The Lender



Strategic Goal 2

Oversight Committee, composed mostly by senior SBA officials, reviewed lender-oversight activities, discussed lender trends and proposed corrective actions for poor performing lenders.

The Portfolio Analysis Committee, composed of staff from the Office of Capital Access and the Office of the Chief Financial Officer, met monthly to review and assess portfolio trends. The committee decided on which areas to focus resources and identified policy issues for further evaluation and discussion.

The Agency takes its fiduciary responsibilities very seriously. The SBA financial and legal staff review problems brought to management attention by the OIG and the GAO. For example, during FY 2006, the Office of the Inspector General, as part of an overall evaluation of SBA's Loan and Lender Monitoring System, reviewed the Guaranty Loan Status and Remittance Report (1502 report) to determine whether reliable data was being incorporated into the system via this report. Lenders report the status of all SBA 7(a) loans in their portfolio using the 1502 report and the Agency extracts the data from the Loan Accounting System for use in assessing its loan portfolio risk level. The OIG concluded that the SBA had not established adequate internal controls to ensure that the lender loan status data reported in the 1502 report was reliable. Two of the elements used by the SBA in its risk assessment process, loan status and outstanding loan guarantee balances, could be impacted by unreliable 1502 reporting data.

SUCCESS STORY

She Rang and the SBA Answered

Hola Corp., a Voice Over Internet Protocol company, started with only three employees, but CEO Carmen Lizola would not stand for that! She worked from dusk till dawn handling office management and even operations until, in November 2004, Hola! Corp. had eight sales representatives.

Recognizing its potential, the company immediately started taking advantage of SBA resources by way of its 7(a) loan and SBDC programs. With this assistance, Hola! Corp. now operates online and is working on its business marketing plan. The company provides Internet telephony, encouraging family bonds through unlimited communication.

Hola! Corp. has Ip-Phones, which look and operate just like analog telephones. The difference is that Ip-Phones are connected directly to an Internet modem. Best of all, its featured HOLA to HOLA is unlimited worldwide! "Families being separated by international distances can talk to each other as much as they want," says Carmen. Carmen even went so far as to test the product herself. She has brothers and sisters throughout Mexico, but with Hola! they now have a family network. Each one can make unlimited calls from the U.S. to Mexico and vice versa. According to Carmen, this simple communication has made all the difference. Their family relationships have never been stronger.



Strategic Goal 2

In response, the SBA hired outside auditors to assess the internal control effectiveness of the 1502 reporting process. The auditors concluded that the 1502 errors had no material impact on the Loan and Lender Monitoring System risk assessment process.

Over the years, SBA has implemented many GAO and OIG recommendations for lender oversight and continues to make improvements toward addressing others ²¹.

Systems Modernization

During FY 2006, the SBA initiated the modernization of Loan Management and Loan Accounting Systems. These are the systems that support loan origination, servicing, liquidation and financial management for the Agency's loan and loan guarantee programs. The current systems are dependent on obsolete technology, and some were developed 50 years ago. While state-of-the-art when designed, these mainframe-based legacy systems impede SBA's ability to rapidly meet the expanding current and future needs of small businesses. These systems require expensive data reconciliation resulting in high maintenance costs.

The SBA needs a modern loan management and financial management system that is secure, scalable, flexible, available and cost effective, and that complies with federal regulatory requirements to support its loan lifecycle. The system needs to have non-redundant, high quality data, and be capable of real-time or near real-time processing. The modernization of these systems is a key element for the SBA to perform online loan processing, minimize data redundancy, maximize reuse, and reduce maintenance costs. Modern technologies can significantly improve the way services are delivered to small businesses and disaster victims through the Agency's financial assistance programs and make it easier for small businesses to gain access to capital and credit when it is not available to them in the commercial marketplace.

Goals Not Met

Indicator: 7(a) Loans Approved: Existing Small Businesses		
Target	Result	Below Target by
73,536	64,307	-13%
Indicator: 7(a) Existing Small Business Assisted		
Target	Result	Below Target by
62,144	52,935	-15%
Reasons for performance result		
In past years, the SBA has significantly grown loan volume to existing small businesses. While SBA projected continued loan growth in FY 2006 at a similar rate, that rate was not achieved. Rising interest rates and other economic factors had an impact on demand for SBA loans. That said, in FY 2006 SBA's loan volume exceeded that of fiscal years 2003 and 2004.		
Steps being taken to improve performance or targets		
The SBA is considering revising the methodology for establishing loan goals to ensure that they are consistent with current lending trends.		
Impact of result		
The SBA had sufficient loan authorization to make additional loans. Therefore, no small businesses were prevented from obtaining financing if they qualified.		

21 GAO-06-605T, April 6, 2006, Small Business Administration -Improvements Made, but Loan Programs Face Ongoing Management Challenges <http://www.gao.gov/new.items/d06605t.pdf>

Strategic Goal 2

504 Loan Program

Table 13.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	504 Loans Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2	New Loans Approved: Existing SB (Number)	Output	5,542	6,897	7,904	8,592	8,343	-3% G
2.2	New Loans Funded (Number)	Output	4,956	6,383	7,712	7,938	8,162	3% G
2.2	Existing Small Businesses Assisted (Number)	Intermediate Outcome	4,956	6,329	7,629	7,874	7,569	-4% G
2.3	New Loans Approved (Number)	Output	3,962	6,207	6,853	7,539	6,989 ^a	-7% G
2.3	New Loans Funded (Number)	Output	3,513	5,742	6,679	6,873	6,812 ^b	-1% G
2.3	SCOGs Assisted (Number)	Intermediate Outcome	3,486	5,637	6,611	6,887	6,673 ^c	-3% G
Small Businesses Assisted			4,956	6,329	7,629	N/A ^d	7,569	N/A ^e
New Loans Funded			4,956	6,383	7,712	N/A ^f	8,162	N/A ^g

504 Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$38,003	\$34,139	\$21,812	\$19,811	\$21,424
Loan Approving (\$000)	\$26,947	\$28,668	\$14,190	\$12,802	\$16,046
Loan Servicing (\$000)	\$5,329	\$3,764	\$5,452	\$4,949	\$3,636
Loan Liquidation (\$000)	\$5,726	\$1,707	\$2,170	\$2,059	\$1,742

504 Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Loan Funded (\$)	\$5,437	\$4,491	\$1,840	N/A	\$1,966
Per Business Assisted (\$)	\$7,668	\$5,394	\$2,859	N/A	\$2,830

^a SCOG loans made in economic distressed areas maybe overstated due to errors in geo-coding.

^b Ibid.

^c Ibid.

^d The total is used only to calculate the unit cost. It does not constitute a performance indicator.

^e Ibid.

^f Ibid.

^g Ibid.

Strategic Goal 2

The 504 program serves small businesses that are generally at a point where owning the building in which the business operates, rather than renting space, permits them to expand their operations and create jobs. A typical 504 loan project includes a loan secured from a private-sector lender with a senior lien, and a loan secured from a Certified Development Company (CDC). Thanks to particular features of this program, such as a statutorily-mandated job creation component, a community development goal, and a public policy goal achievement component, the program helps the SBA facilitate job creation and meet the Agency's mission to maintain and strengthen the Nation's economy by enabling the establishment and viability of small businesses.

In FY 2006, the Agency funded 8,162 new loans under the 504 program to existing small businesses, slightly exceeding its goal for this fiscal year and 5.8% over FY 2005. However, the number of small businesses facing special competitive opportunity gaps that received 504 loans was 3% below the FY 2006 target. The breakdown of the 504 loans to minority-owned small businesses — African Americans, Hispanics, Asian Americans and Native Americans — totaled 2,407. Loans to women were 1,475, and 2,586 loans went to small businesses in rural areas. These categories are not additive since one small business may qualify for more than one category.

The SBA believes the success of the 504 loan program can be attributed to several factors, including the significant changes made in FY 2004 when SBA published a final rule automatically expanding any CDC's area of operations that was less than statewide to statewide. This change affected most CDCs. In addition, it permitted CDCs to expand their area of operations beyond their state of incorporation to contiguous states far more easily. This significantly increased the CDCs' potential market and generated competition among them, which expanded their respective marketing and servicing efforts. These changes greatly stimulated interest in becoming a CDC by community organizations. The SBA approved 12 new CDCs in the last two years, eight of them in FY 2006, increasing the total number of CDCs to approximately 275. Beginning in FY 2003, the SBA began centralizing the 504 loan processing function. The function was completely centralized by the end of FY 2004. Centralization greatly improved and expedited the 504 loan approval process and applied much more consistent loan policy interpretation. The SBA has continued to review the 504 application process, looking for ways to further streamline it. For example, as a pilot program, the Agency revised and reduced the 504 loan application submission process for its best performing CDCs.



Strategic Goal 2

SUCCESS STORY

Improving Health Care One Test at a Time

How does a woman from China become the owner of a medical devices manufacturing company in America? She believes! — In herself, in her family, and in America. Dr. Naishu Wang obtained her MD in China and, after completing her education, was highly recruited and moved to San Diego, California. She was initially employed by a public biomedical company, but after the company sold she made a choice to start her own business. She was confident that she could produce a better medical test product, and in 1996 founded Alfa Scientific, a company that develops high quality and advanced in-vitro rapid medical diagnostic devices for the detection of a variety of diseases. Within eight years, Alfa Scientific Designs, Inc. grew from a company of three to over 45 employees.

The business was destined to expand — it needed space. So, in 2005, with the assistance of the SBA's 7(a) and 504 loan programs, the company moved into a three times larger facility. What's more, Alfa was able to purchase new automated equipment, hire key personnel and double its inventory.

Wang's primary goal is to do everything in her business better and faster, and with sales increasing each year since its inception, she is on the fast track to accomplishing this goal. And she is very grateful to the SBA. As she always says, without the SBA's support, "Alfa would not be today's Alfa."



International Trade

Table 14.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	International Trade ^a Key Performance Indicators ^b	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.1	New Loans Approved: Start-up SB	Output	N/A	N/A	479	504	801	59% B
2.1	New Loans Funded (Number): SSB	Output	127	198	444	467	747	60% B
2.1	Start-up Small Businesses Assisted (Number)	Intermediate Outcome	125	192	420	454	686	51% B
2.2	New Loans Approved: Existing SB (Number)	Output	1,553	2,113	2,335	2,448	2,503	2% G
2.2	New Loans Funded (Number): ESB	Output	1,395	1,938	2,194	2,235	2,335	4% G
2.2	Existing Small Businesses Assisted (Number)	Intermediate Outcome	1,313	1,872	2,064	2,123	2,165	2% G
2.2	Existing Small Businesses Counseled (Number)	Intermediate Outcome	N/A	3,250	3,788	3,800	3,568	-6% G
2.3	New Loans Approved: SCOG (Number)	Output	N/A	N/A	2,288	2,399	2,584 ^c	8% G
2.3	New Loans Funded (Number) SCOG ^d	Output	N/A	N/A	2,145	2,249	2,404 ^e	7% G
2.3	SCOGs Assisted (Number)	Intermediate Outcome	933	1,624	2,026	2,125	2,227 ^f	5% G
Small Businesses Assisted			1,438	2,064	2,484	N/A ^g	2,851	N/A ^h
New Loans Funded			1,522	2,136	2,638	N/A ⁱ	3,082	N/A ^j

International Trade Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$5,811	\$5,447	\$5,400	\$5,038	\$4,304

International Trade Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Loan Funded (\$)	\$3,818	\$2,550	\$2,047	N/A	\$1,396
Per Business Assisted (\$)	\$4,041	\$2,639	\$2,174	N/A	\$1,510

^a International Trade is a subset of 7(a) and 504 loans.

^b New indicators established in FY 2005.

^{c, d, e, f} SCOG loans made in economic distressed areas maybe overstated due to errors in geo-coding.

^{g, h, i, j} The total is used only to calculate the unit cost. It does not constitute a performance indicator.

Strategic Goal 2

According to Commerce Department data, 97% of all U.S. exporters are small businesses. The SBA estimates that in 2005 these businesses accounted for over \$300 billion of U.S. exports, equivalent to nearly 30% of total exports. Time constraints related to planning the exporting logistics and shortage of capital are two of the barriers to exporting that small business owners must overcome. Lenders are often hesitant to provide loans to start-ups in international trade because of the inherent high degree of uncertainty related to start-ups and the complicated industry characteristics of international trade. The SBA attempts to reduce these barriers by providing small businesses with trade assistance loans; technical assistance dealing with trade policy, regulatory and legislative issues; and management assistance.

In FY 2006, the SBA, through its Office of International Trade (OIT), met or exceeded all of its loan production targets for the year. Specifically, the SBA exceeded its international trade loan goals to start-up small businesses by 60%, while meeting all its targets for existing small businesses. This loan production may be due in part to a combination of successful work done by SBA's U.S. Export Assistance Center (USEAC) representatives, increased small business counseling and the recently implemented centralized loan booking process. However, the goals were exceeded so far beyond the target values that the SBA will review its goal-setting methodology for this program

Export trade loan dollars are important to existing small businesses because these loans have a direct correlation to export transactions with foreign buyers and the dollars of export sales that support a small business's growth and sustainability. During FY 2006, international trade financing manifested \$2.1 billion in export sales for U.S. small business exporters. The corresponding increase in revenues and taxes helps local and state governments, while the revenues from exports also help to offset the U.S. trade deficit.

Goals Exceeded

Indicator: International Trade: Loans Approved: Start-up SB (number)		
Target	Result	Above Target by
504	801	59%
Indicator: International Trade: Net Loans Funded: Start-up SB (number)		
Target	Result	Above Target by
467	747	60%
Indicator: International Trade: Start-up Small Businesses Assisted		
Target	Result	Above Target by
454	686	51%
Reasons for performance result		
The performance targets were based on historical averages which were exceeded in FY 2006. Increased travel funds for field representatives allowed increased marketing efforts and production.		
Steps being taken to improve performance or targets		
Future targets will be established based on historical production and travel funds available for field representatives.		
Impact of result		
Increased loans will increase export sales for small businesses.		

SUCCESS STORY

SBA –Helping the Balance of Trade by Exporting the Seeds of Success!

In a small Iowa town, The Seed Company, Inc. has quietly joined the ranks of Iowa's successful small business exporters. With the hard work and dedication of Harrison and Grace Copper, and with some assistance from the SBA's Export Working Capital Program, the company's "Supreme Soy" brand of food grade soybeans may not be a household name in Iowa, but it's in high demand overseas.



The Lynnville Seed Company had been a part of the Central Iowa community since 1935. In 1975 improvements were made to the handle food grade soybeans, but the company did not take advantage of the international demand for U.S. soybeans. In 2002 Harrison and Grace Copper purchased The Seed Company and made even more improvements and new additions to the facility, notably a color sorter which vastly improves the quality of soybean output.

However, it was in 2003 that this story takes off! The great old Seed Company of Central Iowa received an order from a customer in Japan, a customer that needed longer payment terms than usual. The Coppers were not capable of financing the order on their own, but they refused to let the customer go with anything less than total satisfaction. They turned to the SBA. With the help of John Blum at the SBA's U.S. Export Assistance Center in St. Louis, the Coppers were able to put together a \$250,000 line of credit that enabled them to successfully complete the business transaction.

Harrison said the SBA assistance helped the company expand in ways they might not have been able to, adding new customers from China, Japan and the Philippines. It also helped the firm grow from three employees and minimal sales to 13 employees and more than \$6 million in sales in 2006.

Strategic Goal 2

Microloan Program

Table 15.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	Microloan Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal ^a	FY 2006 Actual	FY 2006 % Goal Variance ^b
2.1	New Loans Funded (Number)	Output	1,118	1,022	948	N/A	895	N/A
2.1	Start-up Small Businesses Assisted ^c	Outcome	1,118	1,022	948	N/A	895	N/A
2.2	New Loans Funded (Number)	Output	1,324	1,377	1,488	N/A	1,500	N/A
2.2	Existing Small Businesses Assisted ^d	Intermediate Outcome	1,324	1,377	1,488	N/A	1,500	N/A
2.3	New Loans Funded (Number)	Output	2,073	1,936	1,833	N/A	2,099	N/A
2.3	SCOGs Assisted ^e	Intermediate Outcome	2,073	1,936	1,833	N/A	2,099	N/A
Small Businesses Assisted			2,442	2,399	2,436	N/A	2,395	N/A
New Loans Funded			2,442	2,399	2,436	N/A	2,395	N/A

Microloan Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual ¹⁵	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$25,008	\$24,831	\$18,489	\$17,122	\$15,873
Loan Approving (\$000)	\$6,122	\$8,399	\$3,859	\$3,397	\$3,043
Loan Servicing (\$000)	\$3,708	\$366	\$387	\$430	\$20
Loan Liquidation (\$000)	\$51	\$125	\$115	\$116	\$0
Tech Asst (\$000)	\$15,127	\$15,940	\$14,129	\$13,179	\$12,810

Microloan Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Loan Funded (\$)	\$2,507	\$3,501	\$1,584	N/A	\$1,271
Per Business Assisted (\$)	\$10,241	\$10,350	\$7,590	N/A	\$6,628

^a As no funding has been requested for this program, no performance goals were developed for FY 2006.

^b Ibid.

^c Each small business receives one loan; therefore, the number of new loans funded equals the number of businesses assisted.

^d Ibid.

^e Ibid.

Strategic Goal 2

Through its Microloan Program, the SBA provides very small loans to start-up and newly-established small businesses that need small-scale financing and technical assistance. Under this program, the Agency lends funds directly to nonprofit community-based lenders, which are called financing intermediaries, at a discounted rate. Intermediaries then make loans to eligible borrowers in amounts up to \$35,000. Unlike other SBA programs, microloans to small business borrowers are not guaranteed by the Agency.

In FY 2006, microloans to existing small businesses represented 62.7% of total microloans approved. The average loan to an existing business was \$12,773, and the average loan to a start-up was \$13,714. Typical small businesses that receive microloans are mom-and-pop businesses and sole-proprietorships working out of a home office.

The SBA's Microloan program is often sought by businesses that have fewer than five employees, very small capital needs and frequently are located in low-income communities. A significant number of microloans are accessed by small businesses that face special opportunity gaps, with nearly 45% or 1,066 loans going to women-owned firms, 662 African American- and 463 Hispanic-owned companies in FY 2006.

The SBA set no program goals for the Microloan program because it requested no funds as part of the FY 2006 Agency's budget.

SUCCESS STORY

Young Entrepreneur Delivers More Than Just Pizza

Ryan Ipsa's journey to owning his own business and being selected as the SBA's 2006 Wisconsin Entrepreneur of the Year started in 1999 when he was a sixteen-year-old high school student. With a push from his mom, Ryan got a job at the local pizza restaurant. Unbeknownst to him, this was the beginning of his entrepreneurial ride to owning Arturo's Pizzeria. Soon after he started working at the Pizzeria, the owner, Arthur Reuter, took him under his wing, taught him the ropes and showed him every aspect of the business. Ryan worked diligently and quickly became Arthur's right hand man.

Ryan remembers many conversations with Arthur about one day owning his own business. He always knew he wanted a career in food service, as he loved to cook. However, at his age, the dream of owning a food service business seemed far, far away.

But in 2003, an unfortunate event pushed his dream to the forefront. Arthur Reuter, the owner and Ryan's mentor, passed away. After serious thought, Ryan decided now was the time to fulfill the dream that had seemed so far away when he was 16. In June of 2003, with the help of an SBA Microloan, Ryan became the proud owner of Arturo's Pizzeria.

Ryan has welcomed young people into his business and now seeks to mentor, empower and educate other young people on the possibilities of entrepreneurship. He is currently pursuing a bachelor's degree in business and plans to open another Arturo's location in Milwaukee in the next five years.



Strategic Goal 2

New Markets Venture Capital Program

Table 16.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	NMVC Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2	Existing Small Businesses Assisted (Number)	Intermediate Outcome	N/A	22	14	12	22	83% B
2.3	SCOGs Assisted ^a (Number)	Intermediate Outcome	N/A	22	20	15	34 ^b	127% B
Small Businesses Assisted			N/A	22	14	12	22	N/A ^c

NMVC Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$12,626	\$472	\$349	\$317	\$26

NMVC Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Business Assisted (\$)	N/A	\$21,474	\$24,927	\$26,400	\$1,182

^a Small businesses facing special competitive opportunity gaps are a subset of start-up plus existing businesses.

^b This value is higher than the number of existing small business assisted, because it includes start-up small businesses assisted.

^c The total is used only to calculate the unit cost. It does not constitute a performance indicator.

Equity capital is crucial to an innovative and productive business community, especially in lower-income areas. During FY 2006, the SBA used its New Market Venture Capital (NMVC) program to address the unmet equity needs of low-income communities. The Agency addressed these needs by providing NMVC equity assistance, through NMVC companies, to 34 small businesses. The NMVC program is a small program and investments made within it can fluctuate substantially on a year-to-year basis as seen by performance trends presented in Table 16.

Businesses in these areas have traditionally lacked access to capital and the NMVC program is helping to address this need. Through its unique combination of equity capital and technical assistance, NMVC companies now provide these previously neglected small businesses an enhanced opportunity to succeed. So in addition to capital, the NMVC program provides small businesses in these areas with operational assistance, which allows the recipient businesses to more effectively use the resources available to them and increases the likelihood of ultimate success. By improving the potential for businesses in low-income areas, the program can improve the quality of life in these areas by increasing income and job opportunities for the resident population.

Goals Exceeded

Indicator: NMVC Existing Small Business Assisted		
Target	Result	Above Target by
12	22	83%
Indicator: NMVC SCOGs Assisted (number)		
Target	Result	Above Target by
15	34	127%
Reasons for performance result		
This reflects the relatively small volume for a program where a slight deviation can cause a dramatic change in the percentage. Additionally, the program is relatively new with little history to guide the projections so estimating projected activity is difficult.		
Steps being taken to improve performance or targets		
As the investment period comes to an end in the near future for most of the NMVC funds, goal levels should more closely approximate actual program activity although fluctuations will still occur given the small size of the program.		
Impact of result		
The impact on small businesses is positive since estimated performance exceeds goal levels and actual levels achieved in FY2005.		

Small Business Investment Companies Program

Table 17.

Performance Statement Program Level Assistance								
Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	SBIC Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2	Existing Small Businesses Assisted (Number)	Intermediate Outcome	1,675	1,675	1,559	1,442	1,488	3% G
2.3	SCOGs Assisted (Number)	Intermediate Outcome	580	405	351	325	285	-12% R
Small Businesses Assisted			1,675	1,675	1,559	1,442	1,488	N/A ^a

SBIC Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$12,987	\$13,490	\$15,874	\$14,552	\$15,169
Approving Admin Cost (\$000)	N/A	N/A	N/A	N/A	\$3,648
Servicing Admin Cost (\$000)	N/A	N/A	N/A	N/A	\$8,385
Liquidation Admin Cost (\$000)	N/A	N/A	N/A	N/A	\$3,136

SBIC Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Business Assisted (\$)	\$7,753	\$8,053	\$10,182	\$10,092	\$2,452 ^b

^a The total is used only to calculate the unit cost. It does not constitute a performance indicator.

^b The formula for calculating the "per Business Assisted" cost was revised in FY 2006 to include only the cost for approving a loan. Previously, this measure was calculated using total program costs.

Strategic Goal 2

In addition to providing loan guarantees, the SBA provided long-term loans and equity investments to small businesses through its Small Business Investment Company (SBIC) program.

In FY 2006, the SBA slightly exceeded its SBIC goal of assisting 1,442 existing small businesses. However, it failed to meet its SBIC goal for assisting small businesses facing special competitive opportunity gaps. This is a reflection of the continued larger than anticipated fall-off in the Debenture program. Although the program is shrinking overall, it still plays a role in providing capital to areas not well served by the traditional venture capital industry. The SBIC program is more diverse by geography and industry and makes more substantial investments in low and moderate income areas than private industry.

Due to deficiencies in the Participating Securities (PS) instrument and poor overall SBIC performance, the PS program re-estimates indicated significant losses. As a result, the program was terminated after FY 2004. This in effect removed the primary method by which the SBA can provide access for small businesses to equity capital. In order to help minimize the losses in the PS program and to ensure the Debentures program remains financially sound, in FY 2006, the Investment Division continued to increase its financial monitoring efforts in the Office of SBIC Operations. As a result of its efforts, the Investment Division achieved the lowest percentage of capially-impaired PS SBICs in the Office of SBIC Operations since FY 2000.

As of June 2006, less than 2% of the SBICs that issued PS leverage were capially-impaired. This is a significant improvement from the highest point of over 20% of the active PS SBICs capially-impaired. Towards its financial monitoring efforts, the Investment Division achieved several tasks in FY 2006, including improving its core analytical document, used to evaluate financial performance and regulatory compliance of an SBIC; utilization of the Valuation Contract awarded in FY 2005 to help the program value its portfolio; improving access to data and automation; drafting new operations and licensing standard operating procedures; and re-evaluating its data requirements including new accounting rules and incorporating data needed to better assess private equity portfolios.

Increased failures in PS SBICs and actions taken by the SBA to minimize the cost to taxpayers resulted in a large influx of SBICs transferred into the Agency between 2002 and 2006. This created a considerable receivable backlog resulting in \$1.7 billion in leverage under management. The SBA contracted with a leading secondary market private firm and formed a task force to evaluate an efficient process for dealing with the backlog. Their recommendations will be considered for implementation during FY 2007.



Since the mid-1990s, the Debentures program has been a small program relative to the PS program, both in terms of licenses issued and leverage committed each year. Because the PS program was the largest program within the SBIC program, the discontinuation of the PS program has been misconstrued by many in the general public and the private equity press as the discontinuation of the entire SBIC program. Also, the type of funds for which the Debenture security would be appropriate is different from those that used the PS security. Licensing of new SBICs declined from 37 new licenses in FY 2004 to 13 in FY 2006. SBA began an effort in FY 2006 to market its Debenture program in private equity venues. It also began looking at ways to improve the Debenture program to make it more attractive to SBICs and potential applicants, while maintaining the program's financial integrity. In FY 2006, one action taken towards this effort was removing the prepayment penalty on Debenture securities (leverage) after receiving requests from industry and assessing any financial impact. In addition, SBA re-evaluated certain SBIC program regulations that were in conflict with industry norms. The SBA also updated its website to be more reflective of the Debenture program and make it easier to find information regarding the program and its application process.

Goals Not Met

Indicator: SBIC SCOGs Assisted		
Target	Result	Below Target by
325	285	-12%
Reasons for performance result		
The SBIC program is undergoing a significant transition. The participating securities program ceased licensing SBICs as of 9/30/04. However, SBICs licensed up until that time had and continue to have significant funds to invest in subsequent fiscal years. There has generally been reduced activity in the area of SCOGs assisted particularly among debenture SBICs.		
Steps being taken to improve performance or targets		
SBA is reassessing the definition of SCOGs within the SBIC program to make it more consistent with the way SCOGs are defined in other program areas.		
Impact of result		
As SBA transitions from a large participating securities SBIC program to exclusively a debenture SBIC program, this number will continue to contract. Nonetheless, the SBIC program will continue to provide needed capital to businesses generally not well served by the traditional venture capital industry and on a more diversified base in terms of geography and industry.		

MANAGEMENT ASSISTANCE

At the prospective, nascent and start-up stages in the business lifecycle, management and technical assistance is crucial because it helps to fill in the gaps in knowledge and experience many new entrepreneurs encounter—deficiencies that can be costly, if not lethal, for a start-up enterprise if not addressed immediately.

During FY 2005, the SBA worked to improve the Nation's economy by providing management and technical training and counseling to help start-ups become successful. It did this principally through SBA's Office of Entrepreneurial Development (OED), relying in large part on three resources: SCORE, the Small Businesses Development Centers (SBDCs), and the Women's Business Centers (WBCs). Each of these resource partners focuses on a different segment of the small business community.

Strategic Goal 2

Small Business Development Centers

Table 18.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.								
LTO	Small Business Development Centers Key Performance Indicators ^{a,b}	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Estimate	FY 2006 % Goal Variance
2.1	Startup SB Assisted (Number)	Intermediate Outcome	419,396	442,737	430,965	424,364	422,460	0% G
2.1	Jobs Created/Retained (Number) ^c	Intermediate Outcome	99,825	102,834	127,665	105,904	N/A	N/A
2.1	Revenue Growth (\$ Millions)	Intermediate Outcome	\$4,364	\$5,879	\$4,223	\$4,630	N/A	N/A
2.2	Existing SB Assisted (Number)	Intermediate Outcome	268,139	283,062	275,536	271,315	280,559	3% G
2.2	Jobs Created/Retained (Number)	Intermediate Outcome	63,822	65,796	81,622	67,709	N/A	N/A
2.2	Revenue Growth (\$ Millions)	Intermediate Outcome	\$2,791	\$3,759	\$2,700	\$2,874	N/A	N/A
Total Business Assisted (Number)			687,535	725,799	706,501	695,679	703,019	
Total Jobs Created/Retained (Number)			163,647	168,630	209,287	173,613	UNAVAIL	
Total Revenue Growth (\$ Millions)			\$7,155	\$9,638	\$6,923	\$7,504	UNAVAIL	

SBDC's Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$92,760	\$103,541	\$105,593	\$103,233	\$103,005

SBDC's Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Business Assisted (\$)	\$135	\$143	\$150	\$148	UNAVAIL
Per Job Created/Retained (\$)	\$567	\$614	\$505	\$595	UNAVAIL
Per Million of Revenue (\$)	\$0.01	\$0.01	\$0.02	\$0.01	UNAVAIL

^a This program serves all small businesses including those facing special competitive opportunity gaps (SCOGs); however, the data source for SCOGs is being evaluated. Consequently, no results are being reported.

^b The division of results between start-ups and existing businesses are calculated estimates based on historical values.

^c This economic impact value is available three months after the close of SBDC financial cycle.

To better assess performance and focus the program toward increasing economic impact, the SBA made a dramatic shift in its focus for the SBDC program in FY 2006 by revising performance measurements for 2007. Technological advancements, such as improved data collection through EDMIS II, and a centralized database to collect client data and demographics enabled the SBA to place more emphasis on intermediate outcome and impact measures. These new measurements are: the number

Strategic Goal 2

of long-term counseling clients; the number of new business starts; and the dollar amount of capital infusion (to include SBA loans, non-SBA loans and equity investment). Each of the 63 SBDC grant recipients from all 50 states, the District of Columbia, and the U.S. territories will use these new performance measurements as leading indicators of economic impact for the program going forward.

The SBA has worked diligently to improve relationships with its stakeholders, in particular with the Association of Small Business Development Centers (ASBDC). The effectiveness of this improved relationship was demonstrated by recent collaboration in many areas ranging from redefining client data for program performance criteria to providing assistance to Hurricane Katrina victims. During the aftermath of Hurricane Katrina, the SBA and the ASBDC worked to redefine program statutory restrictions to allow 45 SBDC counselors from 16 states to travel to the Gulf Coast to assist small businesses in their recovery efforts.

In response to the inception and start-up of three new lead centers, host institutions and networks, the SBA revised its early stage relationship with new lead centers and host institutions. SBA initially analyzed and identified factors contributing to start-up difficulties and rectifying actions that would contribute to survivability and sustainability of brand-new SBDC networks host institutions. This was followed by SBA weekly conference calls with key stakeholders, training, troubleshooting, periodic site visits, and establishing mentorships by seasoned SBDC state directors.

The SBA also made plans, in collaboration with the ASBDC to conduct SBA bimonthly conference calls between headquarters and new state directors as a direct response to the 27% turnover of SBDC directors over the past two years.

Another area of stakeholder improvement has been in the professional development of field staff. Funding was earmarked this year to conduct SBDC project officer training in Orlando, Florida, where field personnel were updated on their duties and responsibilities and on the many changes in program policy and procedures. With a recent turnover of almost two-thirds of current project officers, this project was given critical priority with the intended result of improved levels of capability and customer service between the SBDCs and SBA field staff.

During FY 2006, the SBDC program committed extensive resources to making functional organizational improvements to its programs and office structures. It examined management and oversight processes aimed at reviewing, revising, and cross-referencing program and financial reviews and report follow-ups resulting in a desk audit capability for those centers with good past performance records. Introduction of desk audits enables the SBA to continue a responsible level of financial oversight while remaining cost efficient and improving its ability to judge overall performance of each individual SBDC, in both the financial and service delivery areas, while allowing and correlating each center's budget with performance.

Work also progressed on the development of an electronic model that collects information on various aspects of individual SBDC activity, providing information on the quality of each lead center and the overall network. Once fully deployed in FY 2007, the model will serve as the Agency's main source of integrated reference documentation for each center, identifying common challenges in the areas of compliance and statistically tracking changes in the SBDC network over periods of time. This will allow for early detection of trends and problem areas, as well as best practices of SBDCs, and will affect the type of review an SBDC receives.

Strategic Goal 2

SUCCESS STORY

SBA — Where the Rubber Meets the Road and the Environment is The Winner

When Terry Harris started Rubber Wholesalers, Inc. nine years ago, as a producer of scrap rubber “buffings” that come from the top of recapped truck tires, he could hardly give the stuff away. Now, it is the most sought after part of used tires. The rubber recycling firm did over \$9 million in sales last year, and Terry was honored as the SBA’s 2006 Small Business Person of the Year in Georgia.

In the early days, stuck with piles of tire buffings, Terry realized he had to find a use for his raw material. After studying the industry, he created a line of products that now includes rubber walking trails, rubber flex curbs, rubber safety surfaces for playgrounds and loose-fill rubber mulch that has become his fastest selling product.

The reinvention of Rubber Wholesalers into a manufacturer of recycled rubber products has bounced sales up 140% over its 2004 sales of \$4 million!

And the SBA helped too — with two guaranteed loans from the Agency’s 7(a) loan program and with assistance from the University of Georgia Small Business Development Center in Dalton, which played a vital role in helping Terry find his initial financing. The first loan provided working capital and money that was used to purchase the company’s 40,000 square-foot plant. The second SBA-backed loan was used to buy additional equipment that made production more automated and less labor intensive. The SBDC also helped Terry improve his internal accounting and cash flow management.

Terry says he expects to increase production of his rubber mulch by about 50% this year. And, looking overseas, he has met with a potential joint venture partner to take the product into the European market.



SCORE

Table 19.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	SCORE Key Performance Indicators ^{a, b}	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal ^c	FY 2006 Estimate	FY 2006 % Goal Variance
2.1	Start-up SB Assisted (Number)	Output	393,677	388,566	335,090	Baseline	317,674	N/A
2.2	Existing SB Assisted (Number)	Output	80,633	79,586	68,634	Baseline	65,066	N/A
Total Business Assisted (Number)			474,310	468,152	403,724	—	382,740	

SCORE Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$11,284	\$17,209	\$18,507	\$17,442	\$16,932

SCORE Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Estimate
Per Business Assisted (\$)	\$24	\$37	\$46	N/A	\$44

^a This program serves all small businesses including those facing special competitive opportunity gaps (SCOGs); however, the data source for SCOGs is being evaluated. Consequently, no results are being reported.

^b The division of results between start-ups and existing businesses are calculated estimates based on historical values.

^c The number of start-up small businesses assisted include businesses that were counseled and/or trained. SCORE has set up FY 2006 as a baseline for clients counseled, because it is implementing the client counseled definition change. Consequently, the aggregate number is also a baseline.

The primary goal of SCORE is business formation and sustainability, and SCORE accomplishes this by getting to as many clients as possible. The organization's core competency is counseling; however, it also delivers training services. The program's \$5 million appropriation supports all administrative expenses including leases, equipment, salary and expenses for national SCORE staff, recruitment of volunteers, preparation of all training and marketing materials, per diem reimbursements (for SCORE volunteers), and supporting EDMIS and other projects.

SCORE wants to increase, enhance and develop more online counseling, and is fully integrated into other Agency initiatives such as Community Express and is the provider of technical assistance for the SBA's Faith and Community Based Initiatives. SCORE is also the technical assistance provider for the White House Asian American Initiative.

In FY 2006, SCORE counseled and trained over 317,000 nascent/start-up small businesses and over 65,000 existing small businesses. During this year SCORE finalized the implementation of the new client definitions for counseling and training, and will use FY 2006 results as the baseline to set future targets.

Of particular note is SCORE's focus in increasing its outreach by using its web-based counseling tools. The organization plans to increase "cyber" counseling in 2007 by expanding the database of expertise and types of business skill sets. Both online

Strategic Goal 2

and hard copy materials are currently available in English and Spanish; plans are to add at least two more languages, one of which will be Vietnamese.

Women's Business Centers

Table 20.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	Women's Business Centers Key Performance Indicators ^{a, b}	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Estimate	FY 2006 % Goal Variance
2.1	Startup SB Assisted (Number)	Intermediate Outcome	85,290	98,170	115,453	101,599	101,044	-1% G
2.1	Jobs Created/Retained (Number)	Output	6,538	7,921	9,442	9,725	9,630	-1% G
2.2	Existing SB Assisted (Number)	Output	21,322	24,542	28,863	25,400	25,261	-1% G
2.2	Jobs Created/Retained (Number)	Intermediate Outcome	3,592	3,570	4,295	3,787	3,738	-1% G
Total Small Businesses Assisted (Number)			106,612	122,712	144,316	126,999	126,305	
Total Jobs Created/Retained (Number)			10,130	11,491	13,737	13,512	13,368	

Women's Business Centers Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$16,653	\$21,671	\$23,555	\$22,614	\$22,033

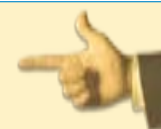
Women's Business Centers Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Estimate
Per Business Assisted (\$)	\$156	\$177	\$163	\$178	\$174

^a This program serves all small businesses including those facing special competitive opportunity gaps (SCOGs); however, the data source for SCOGs is being evaluated. Consequently, no results are being reported

^b The division of results between start-ups and existing businesses are calculated estimates based on historical values.

Under the Women's Business Center program, centers are only eligible for SBA assistance for a maximum of 10 years. Grants are renewed annually and grant amounts are performance-based. The mature centers that are the most successful, efficient and popular eventually graduate out of the program because of this time limitation. To compensate, the SBA must grow the network by initiating centers into the program at a greater rate than those graduating and encourage faster and better transition to self-reliance in mature centers.

DID YOU KNOW?



America's 9.1 million women-owned businesses employ 27.5 million people and contribute \$3.6 trillion to the economy.

Strategic Goal 2

Budget and performance integration is a serious challenge for the WBC program, as funding does not drive performance in the respective funded year. The WBC program is the only entrepreneurial development program that bases its grant award amount on the previous fiscal year's performance. This process rewards the centers that are doing the best job and provides an incentive for continued improvement of the grantees' performance. The Office of Women's Business Ownership did a productivity analysis in FY 2006 that will allow the program to set better goals for the centers. Based on that analysis, the WBC is taking steps to integrate budget and productivity, and performance.

In FY 2006, the SBA awarded grants to 19 nonprofit organizations to start new Women's Business Centers, thereby reaching numerous new communities. To ensure continued service to their communities, 13 sustainability grants were awarded to existing WBCs that had completed the initial five-year grant period. With the newly funded centers, the SBA will have 99 WBCs nationwide.

SUCCESS STORY

SBA Rolls to the Rescue!

What kind of company sells "fun and freedom?" Well, according to Shelby Stirrat, owner of Scoot Over, Tucson, Arizona's leading scooter shop, hers does. "We supply full body smiles and increase the joy in our customers' lives," Shelby says.

The idea for the store came from Shelby's husband. One day he bought a scooter and, after Shelby took a spin on it—her first scooter ride ever—she was hooked! She was inspired her to get a scooter of her own, but when trying to buy one in Tucson proved difficult, she decided to look into opening her own store.



Shelby turned to SCORE, the SBA's resource partner, and sought guidance from the SBA's Women's Business Center (WBC). SCORE connected her with University of Arizona graduate students who created the software currently used in Scoot Over's service department.

The WBC, also known as the Microbusiness Advancement Center (MAC), ran her through a 16-week training course designed to move a budding entrepreneur from business concept to completed business plan. Shelby describes her training as extremely intensive and thorough. She explains, "I received the kind of structured guidance in market research needed to break into a new market with a new product."

Having completed her plan, Shelby needed capital. With a \$25,000 SBA microloan and money from personal savings, she was able to gather the necessary capital to get things rolling. Not only did the SBA and its resource partners bring her vision to life, they provided access to experts and community resources and helped her understand the value of networking.

Today, Scoot Over is jammed wheel-to-wheel with various sizes and brands of scooters and is growing stronger by the customer. Scoot Over isn't "scootin' over" for anybody!

Strategic Goal 2

Drug Free Workplace

Table 21.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	Drug Free Work Place Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Estimate	FY 2006 % Goal Variance
2.2	Existing SB Educated (Number)	Output	11,873	19,400	5,150	11,800	531	-96% R
2.2	Programs Implemented (Number)	Output	1,500	1,075	1,029	1,029	62	-94% R

Drug Free Work Place Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$1,941	\$1,025	\$1,033	\$1,034	\$1,165

Drug Free Work Place Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Estimate
Per Program Implemented (\$)	\$1,294	\$954	\$1,003	\$1,005	\$18,790

The Drug Free Workplace (DFWP) program requires the SBA to award grants to eligible intermediaries to provide financial and technical assistance to small businesses seeking to establish drug free workplace programs. The grantees are also expected to educate working parents on how to keep their children drug free. The program also requires the SBA to award contracts to Small Business Development Centers (SBDC) to provide information and assistance to small businesses with respect to establishing drug free workplace programs.

Currently, there are five grantees that are carrying out the requirements of the program. Additionally, the SBA issued another Program Announcement for the DFWP and expects to add approximately five more grantees for a total of 10 grantees in the program during FY 2007. In FY 2008, the 10 DFWP grantees will continue to provide technical and financial assistance to small businesses that are interested in implementing drug free workplace programs and continue to provide training to those small businesses that are maintaining a DFWP program.

Goals Not Met

Indicator: Existing Small Businesses Educated (Number)		
Target	Result	Below Target by
11,800	531	-96%
Indicator: Programs Implemented (Number)		
Target	Result	Below Target by
1,029	62	-94%
Reasons for Performance Result		
The methodology used for setting the goals did not accurately consider the effect of historical performance, together with decreases in the number of grantees and the incorporation of new grantees into the program		
Steps Being Taken to Improve Performance or Targets		
The program is developing a methodology for setting targets based on historical performance and the other factors identified as having an effect on performance.		
Impact of Result		
A better goal setting methodology should help in the management of the program		

District Offices Counseling and Training

Table 22.

Performance Statement Agency Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	District Offices Counseling and Training Key Performance Indicator	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.1, 2.2 ^a	Small Business Assisted (Number)	Output	N/A ^b	329,270	409,276	293,639	315,665	8% ^c

Counseling and Training Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program Cost (\$000)	\$0	\$0 ^c	\$32,119	\$29,623	\$16,208

Counseling and Training Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Business Assisted (\$)	N/A	\$0	\$78	\$101	\$51

^a The program was not able to differentiate between start-ups and existing businesses.

^b This activity was not tracked in FY 2003.

^c Until FY 2004 the cost of counseling and training by district offices was allocated as program overhead.

Strategic Goal 2

The SBA district offices provide counseling and training services to individuals and/or businesses that aid in the formation, management, financing, and/or operation of a small business enterprise. Counseling, as opposed to training, is one-on-one and is specific to the client's individual needs. Training is delivered via a structured program on a business-related subject to one or more attendees at events lasting at least one hour. In FY 2006, SBA field office employees counseled and trained 315,665 small businesses or would be entrepreneurs. The topics of the counseling and training were as diverse as the clientele itself.

There is no overlap in the collection of data or services provided with SBDC, SCORE and WBC, because the populations served are different, and the services provided are tailored to their individual populations. The SBA field offices also provided local direction and oversight to the local SBDC, SCORE and WBC.

SUCCESS STORY

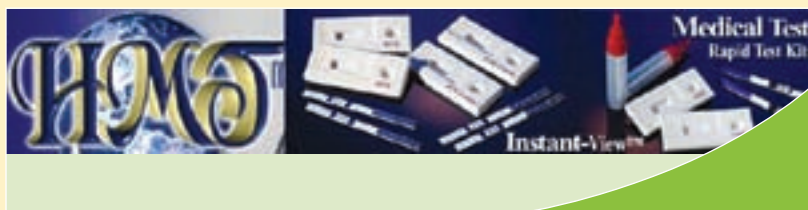
When the Going Gets Rough, the SBA Gets You Going

When Mike Adrian started Horizon Medical Technologies, LLC, a small medical equipment supplier and diagnostics company in Morgantown, West Virginia, the future seemed bright. Then, within the first seven months, disaster struck with the overnight foreclosure of the contractor who managed purchases and billing for 14 of Horizon's hospitals; the receivables from their previous sales would never be collected. "We had this rather large black hole in our receivables which presented a major cash flow problem," said Adrian.

As if that wasn't enough, Horizon's second largest health care client filed for protection under bankruptcy. "In 75 days we had lost 70% of ongoing revenue and 60% of our current receivables," continued Adrian. "We had less than 90 days in operating cash."

That's when Adrian decided to redirect the company's emphasis from a supplier of medical equipment to a provider of employee diagnostic services and pursue an SBA guaranty 7(a) loan. "My efforts with several banks fell on deaf ears," stated Adrian. With little time left before the inevitable, Adrian sought help from the SBA.

Sharon Weaver of the SBA West Virginia district office turned out to be Adrian's contact. "Sharon focused on the issue at hand – the refinancing of my debt and the providing of operating capital that would provide the means to restructure the company," said Adrian. After the meeting, Adrian was brimming with newfound encouragement and approached Mark Randalls of Bruceton Bank. Randalls agreed that an SBA guaranty would be ideal; a loan was approved and the financing was established. Since then, Horizon has also received assistance from SBA's HUBZone program, and latest reports show the company is strong and stable.



PROCUREMENT ASSISTANCE

The SBA offers established businesses opportunities to sell products and services to the Federal Government. Purchases by military and civilian installations amount to nearly \$300 billion a year and include everything from complex space vehicles to janitorial services to cancer research. In sum, the Federal Government buys just about every category of commodity and service available.

Four of the small business programs at the SBA that provide procurement assistance are the 8(a) Business Development program, the HUBZone program, the 7(j) Management and Technical Assistance program and the Surety Bond Guaranty program. Each of these programs has a very different objective, yet their missions complement one another. The 8(a) program is a business development program whose primary objective is to increase small business ownership among individuals who own and control little capital. The HUBZone program is a procurement assistance program whose primary objective is job creation and increasing capital investment in distressed communities. The 7(j) is a program that enters into grants, cooperative agreements or contracts with public or private organizations that can deliver management or technical assistance to individuals and enterprises eligible for assistance. This assistance is delivered to 8(a) certified firms, small disadvantaged businesses, businesses operating in areas of high unemployment or low income, or firms owned by low-income individuals. Through the Surety Bond Guarantee (SBG) Program, the SBA provides small businesses with the opportunity to compete in the contracting industry. Under this program, the SBA guarantees bid and final bonds that enable small businesses to bid on and perform on projects for which they would not otherwise qualify.

8(a) Program

Table 23.

Performance Statement Program Level Assistance								
Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	8(a) Key Performance Indicators ^{a,b,c}	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2, 2.3	Existing SB Assisted	Intermediate Outcome	8,431	8,900	9,458	9,500	9,600	1%

G

8(a) Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$33,374	\$34,945	\$31,387	\$29,053	\$29,582

8(a) Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Small Business Assisted	\$3,959	\$3,926	\$3,319	\$3,058	\$3,081

^a Represents all 8(a) certified small businesses.

^b To be eligible for 8(a) certification a small business must be in existence for at least two years.

^c Any small business that is 8(a) certified is considered to be facing special competitive opportunity gaps.

Strategic Goal 2

The SBA's 8(a) program, named for a section of the Small Business Act, is a business development program created to help small disadvantaged businesses compete in the American economy and gain access to the federal procurement market. Firms receiving assistance from the program must meet the following criteria:

- Must be a small business;
- Must be unconditionally owned and controlled by one or more socially and economically disadvantaged individuals who are of good character and citizens of the United States; and
- Must demonstrate potential for success.

Table 23 shows the number of small business assisted by the 8(a) program during FY 2006. In FY 2007, the SBA intends to explore and implement new methodologies for measuring the impact of the program on the success of small business. The previously used survey methodology did not allow the measurement of the impact of the program in the whole population served by the program.

In 2006 the SBA worked to fine tune the 8(a)/SDB e-application, which is the first phase of the new Business Development Management Information System (BD-MIS). The BD-MIS will replace the current SACS/MEDCOR data base which utilizes outdated technology and does not meet the needs of the program. The SACS/MEDCOR system was created in 1995. It consists of two parts: the Servicing and Contracting System (SACS) and the Minority Enterprise Development Central Office Repository (MEDCOR). Basic information about 8(a) firms, including such demographic data as the location, minority status, and gender of the owners, is stored in SACS. Data about proposed and awarded contracts resides in MEDCOR. The BD-MIS was developed, in response to the President's Management Agenda on E-Government, to expand the use of electronic tools and the Internet as a means of service delivery.

The e-application module of the BD-MIS experienced operational problems during the first year of the pilot. The system could not generate some reports, was not user-friendly and there were problems processing applications within the system. The SBA immediately took control of the problem by hiring a contractor to review the system to identify weaknesses and to suggest improvements. The weaknesses are being addressed, and the system will be re-engineered to make it more user-friendly. The re-engineered e-application will be available in FY 2007. Additionally, it became evident in the pilot that some programmatic requirements were not being addressed by the paperless e-application process.

The Agency also began a program to train Business Development Specialists (BDSs) in the district offices who deliver the 8(a) program in the field. The reason for training the BDSs was to enable them to provide better customer service to the 8(a) firms they service. Each month, training is provided to BDSs on topics pertaining to the 8(a) program such as annual reviews, mentor-protégé and calculating size. Furthermore, in 2006, the SBA held a very successful four-day training conference for the lead BDSs from each district office and branch office. The conference provided an opportunity for training and also provided a dialogue between headquarters and the field on 8(a) issues.

The following actions are being taken to improve performance of the 8(a) program:

- Strengthening criteria relating to economic disadvantage;
- Developing and implementing new information technology management systems including electronic applications and annual review processing, as well as a dynamic management reporting system;
- Automating 8(a) annual review process to reduce costs;
- Awarding a contract at the end of FY 2006 to perform Lean Six Sigma business process reengineering for BD's programs. Lean Six Sigma is a management model that improves process flow in both speed and quality to enhance efficiency.

8(a) Program: District Offices Support

Table 24.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	District Offices 8(a) Program Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2, 2.3	Annual 8(a) Reviews %	Output	55%	60%	77%	100% ^a	56% ^b	-44% R
2.2, 2.3	New Certifications	Intermediate Outcome	1,351	1,328	1,473	N/A ^c	889	N/A

District Offices 8(a) Program Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Field - 8(a) Reviews (\$000)	\$26,363	\$18,339	\$11,422	\$10,263	\$9,563
Total Field 8(a) Marketing and Outreach (\$000)	\$0	\$9,499	\$11,614	\$10,738	\$12,727

District Offices 8(a) Program Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Review (\$)	\$687	\$415	\$182	\$113	\$188
Per New Certification (\$)	\$0	\$7,153	\$7,885	N/A	\$14,316

^a The SBA is required by statute to review 100% of the 8(a) firms each year.

^b SBA completed 5,081 (56%) of the 9,050 reviews required in FY 2006.

^c The SBA does not set targets for new certifications.

The Agency is statutorily mandated to review 100% of its 8(a) portfolio annually. During FY 2006, 56% of the reviews were completed, down from 77% in FY 2005. This continued a downward trend that began in FY 2003. A significant contributing factor was the distribution of staff resources at the district office level. The Agency, as part of its transformation, will consider re-allocating resources from 8(a) Marketing and Outreach to Program Reviews to comply with the statutory mandate of 100% portfolio review. Based on cost, this would be a more effective and efficient use of resources, since the marketing cost per newly certified firm has increased from \$7,885 in FY 2005 to \$14,316 in FY 2006. Meanwhile, the per-review cost has remained essentially flat between the two years; \$182 per review in FY 2005, and \$188 in FY 2006.

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Goals Not Met

Indicator: 8(a) Reviews		
Target	Result	Above/Below Target by
100%	56%	-44%
Reasons for performance result		
Limited staff resources are a significant contributing factor to the below target performance.		
Steps being taken to improve performance or targets		
The performance goal was set based on a statutory requirement. OFO is concerned with the ability of the district offices to complete the annual reviews of Section 8(a) firms in a timely manner. OFO is working closely with the Office of Business Development to identify and implement procedures to streamline the process and ensure that all reviews are completed on time and in compliance with the statutory requirements.		
Impact of result		
There was no indication that the overall program was adversely affected. However, SBA is committed to reaching 100 % compliance and ensuring the integrity of the program.		

SUCCESS STORY

SBA Helps Makes the Country Safer

Ellie Nazemoff emigrated from Iran to the United States in 1977, seeking opportunities not available to women in her native country. After earning a master's degree from Strayer University, she started her own consulting business, DataTech Enterprises, marketing an office management software program for doctors that she designed and developed. Marketing brought the realization that many doctors did not yet have computers in their offices, so she bundled hardware and software together and began to sell packages. Four years later, in 1989, she started seeking out government contracts.


By 2001 the company had sufficient credentials to become a prime contractor. However, the business suffered a setback after the 9/11 terrorist attacks when the Federal government cancelled some of its contracts. Ellie knew she had to do something. She applied for and received an SBA Disaster Assistance loan and redirected the firm's emphasis to include security technology. The strategy paid off! DataTech was ranked No. 2 in the Fast Growth 100 for the 12 months ending June 30, 2004. In 2004, the company was certified under the SBA's 8(a) and HUBZone programs

Today the firm has a new name, Acolyst, has grown to 15 employees, reported over \$2 million worth of business last year, and has a string of contracts to its credit. "We listen to our clients," Ellie says. "More and more they are requesting Commercial Off The Shelf (COTS) products, integration tools and methodologies." The firm's new name, Acolyst, was chosen as a combination of the words "acolyte" and "catalyst," the combination signifying Acolyst's growth and evolution into a qualified COTS Integrator.



HUBZone Program

Table 25.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	HubZone Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2, 2.3	Small Businesses Assisted	Intermediate Outcome	2,338	2,294	2,960	4,900	5,044	3% 
2.2, 2.3	Annual Value of Federal Contracts (\$ Billion)	Intermediate Outcome	\$3.4	\$4.8	\$6.1	\$7.0	UNAVAIL ^a	N/A

HubZone Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$5,649	\$6,825	\$7,769	\$7,304	\$7,496

HubZone Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Business Assisted	\$2,416	\$2,975	\$2,624	\$1,491	\$1,486
Per Contract Dollar	\$0.002	\$0.001	\$0.001	\$0.001	UNAVAIL

^a Final data is not available from FPDS until April 2007.

The HUBZone contracting program is a community-based program that encourages economic development in historically underutilized business zones, "HUBZones." Its mission is to increase employment, promote capital investment, and foster economic development in distressed urban and rural communities throughout the Nation. Eligible communities include qualified census tracts, non-metropolitan counties experiencing high unemployment or low household income, Indian Country, difficult to develop areas outside the contiguous United States, and areas affected by military base realignments.

Economic Impact measures - The SBA measures the economic impact it is having in eligible HUBZone communities with two individual evaluations, one that is done by the Agency and one that is done by a congressionally mandated independent review of the HUBZone Program. The latter report is due in FY 2008.

Securing HUBZone Contracts – If the first step of the community-based economic development effort is acquiring a portfolio of capable HUBZone-certified firms to perform on government contracts, the next step is acquiring set-aside HUBZone contracts from federal contracting officers. Recognizing that the HUBZone Program's utility as an economic development tool hinges upon award of substantive federal contracts to certified firms, the SBA continued implementation of the HUBZone Procurement Query and Reporting System. The system assists acquisition agencies in identifying opportunities to set-aside for award to HUBZone firms, and to help agencies in meeting the three percent statutory contracting target. The system queries the FedBizOps database daily to identify opportunities that could have been set-aside for HUBZone competition, but were not, and notifies appropriate contracting officers and Offices of Small and Disadvantaged Business Utilization in the relevant federal agencies. The objective of this effort is to educate contracting officials of their statutory and regulatory obligations to

Strategic Goal 2

set-aside contracts for HUBZone competition, and thereby increase awards to HUBZone-certified firms to promote job growth, investment, and economic development in distressed communities.

Mapping more geographic HUBZone areas – Congress identified additional areas (outside the continental U.S.) which were considered difficult development areas in need of economic development. In FY 2006, the HUBZone program provided outreach to these communities by updating and modifying HUBZone geocoding mapping systems to identify these areas and areas affected by base realignments and closures.

Surety Backing – Under the Surety Bond Guarantee Special Initiatives, HUBZone-certified firms, along with firms owned by those deemed “socially and economically disadvantaged,” are eligible to receive a 90% SBA guarantee. Feedback from discussions with the HUBZone Contractors National Council, a private sector trade organization, and SBA public outreach events during FY 2005 and 2006 established that many HUBZone firms felt more information on surety options was needed within the general HUBZone contracting community.

There were two main reasons – some HUBZone-certified concerns are unaware of this special consideration, and those HUBZone contractors aware of the surety initiative felt contracting officers were overlooking the firms for construction contract opportunities based in part on a concern with surety considerations. Surety backing is required under the Miller Act for federal construction projects.

Therefore, SBA conducted an outreach and marketing campaign during FY 2006 that involved targeted marketing to the HUBZone Council members, as well as the overall HUBZone portfolio. In addition, a training session was conducted for all HUBZone district office liaison staff.

Regulatory Definition of “Employee” – Over the past few years there has been confusion dealing with the specific definition of “employee,” how the HUBZone program defines “temporary” and “permanent” employee, and how this affects the 35% employee eligibility requirement. During FY 2006, a working group that included Office of General Counsel (OGC), HUBZone and Office of Inspector General staff was convened to review the current regulatory definition of employee and draft a proposed rule that defines employee in simple terms that both meets the statutory objectives of the program and is easily understood by the public. The HUBZone program has been in consultation with representatives of the OGC and others within the Office of Government Contracting to insure that the proposed definition is consistent with use of the term in other Agency programs. This regulatory clarification will result in greater customer understanding of program eligibility requirements, expand the base of eligible firms, and result in an increased number of applications and resulting certifications.

The SBA awarded a multiyear contract for a major system upgrade of the HUBZone Certification and Tracking System (HCTS) valued at approximately \$1.3 million. The goal is to procure necessary software, systems, and services to upgrade and maintain (and in limited instances create) the electronic systems of the existing system to ensure efficient, effective, and customer-centric administration and operation of the HUBZone Contracting Program. This upgrade will allow the SBA to better manage and administer the HUBZone program. It can be noted that the contract was solicited as a HUBZone set-aside. The successful offeror, Sycamore Associates, was featured in the FY 2005 Performance Accountability Report as a HUBZone success story.



DID YOU KNOW?



Procurement center representatives can be found at each major agency and military installation. They help increase the small business share of federal procurement awards by initiating small business set-asides; reserving procurements for competition among small business firms; providing small business sources to federal buying activities; and counseling small firms.

HUBZone: District Offices Support

Table 26.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	District Offices HubZone Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2, 2.3	Reviews	Output	N/A ^a	510	593	668	703	5% 
2.2, 2.3	New Existing SB Certifications	Intermediate Outcome	2,237	2,216	2,208	2,200	2,211	0% 

District Offices HubZone Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Field - Hubzone Reviews (\$000)	\$3,070	\$404	\$1,460	\$1,337	\$1,515
Total Field -Marketing & Outreach (\$000)	\$0 ^b	\$2,837	\$2,925	\$2,685	\$2,770

District Offices HubZone Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Review (\$)	N/A	792	2,462	2,002	2,155
Per New Certification (\$)	N/A	1,280	1,325	1,221	1,253

^a This activity was not tracked in FY 2003.

^b FY 2003 cost data for this activity is not available.

The SBA district offices are responsible for the marketing of the HUBZone program at the local level. This marketing results in new firms applying for HUBZone certification. Increasing the size of the portfolio is important because increases the diversity and density of small businesses in a HUBZone. This in turn increases the possibilities of federal contracts being awarded to HUBZone firms. During FY 2006, the SBA certified 2,211 new firms at marketing and outreach cost of \$1,253 per certification. This figure does not include the allocated resources at headquarters level.

District offices are also responsible for annually reviewing five percent of HUBZone portfolio. The SBA had a goal of ensuring that 668 Hub-Zone reviews were completed during FY 2006. By the end of FY 2006, 703 reviews had been conducted by the district offices, representing an 18% increase over the FY 2005 accomplishment. Furthermore, the cost per review fell slightly from \$2,462 in FY 2005 to \$2,155 in FY 2006 –representing a 14% reduction in per-review cost. Part of this decrease can be explained by the larger percentage of overhead being allocated to the disaster loans because of the unusually large volume of loans in FY 2006.

Strategic Goal 2

7(j) Program

Table 27.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	7(j) Key Performance Indicators ^{a,b}	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2,2.3	Existing SB Assisted	Intermediate Outcome	N/A	5,776	2,107	2,200	2,317	5%

G

7(j) Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program (\$000)	\$2,803	\$4,626	\$3,116	\$2,905	\$2,289

7(j) Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Business Assisted (\$)	N/A	\$801	\$1,479	\$1,320	\$988

^a This is the number of small businesses that received face-to-face training.

^b Only 8(a) certified firms receive training under the 7(j) program. Any small business that is 8(a) certified is considered to be facing special competitive opportunity gaps.

Under Section 7(j) of the Small Business Act, the SBA is authorized to enter into grants, cooperative agreements or contracts with public or private organizations that can deliver management or technical assistance to individuals and enterprises eligible for assistance under the Act. This assistance is delivered through the 7(j) Management and Technical Assistance program to 8(a) certified firms, small disadvantaged businesses, businesses operating in areas of high unemployment or low-income, or firms owned by low-income individuals. The 7(j) training helps small businesses close the competitive opportunity gap by preparing them to better compete in the mainstream marketplace.

The 7(j) program grants, cooperative agreements, or contracts are awarded to service providers who have the capability to provide business development assistance to the eligible clients. The 7(j) program funding is not available to finance a business; purchase a business; or use as expansion capital for an existing business.

Financial assistance under the 7(j) program may be given for projects that respond to needs outlined in a program solicitation announcement, or for an unsolicited proposal that could provide valuable business development assistance for 8(a) and/or other socially and economically disadvantaged small businesses. The management and technical assistance may include accounting and marketing services, feasibility studies, marketing/presentation analyses and advertising expertise, loan packaging, proposal/bid preparation, industry specific technical assistance and other specialized management training and technical services. Additionally, an executive education program is offered for owners and senior officers of 8(a) firms to take part in intensive week-long training sessions.

In FY 2006 the 7(j) Management and Technical Assistance program provided training to more firms than ever before. Through two contracts awarded under the program, the SBA provided Basic and Advanced CEO Training and Cost and Price Analysis